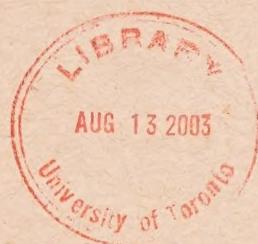


2002



A Status Report
of the
Auditor General of Canada
to the House of Commons

SEPTEMBER



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The September 2002 Report of the Auditor General of Canada comprises five chapters, and a Message from the Auditor General.

The Report is available on our Web site at www.oag-bvg.gc.ca.

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AUDITOR GENERAL OF CANADA



CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my second Report of 2002 to the House of Commons, which is to be tabled in the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 26 September 2002



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A Message from
the Auditor General of Canada



Sheila Fraser, FCA
Auditor General of Canada

A Message from the Auditor General of Canada

I am pleased to present this first Status Report to the House of Commons. It reports on our audits of the steps that federal government departments and agencies have taken to implement some of the recommendations we have made within the past five years. Taking into account Parliament's response to this report, I intend to present a status report to the House of Commons each year, with the next one in the spring of 2003.

A new approach to following up on past reports to Parliament

Although follow-up on our previous recommendations has been part of our regular work for many years, this year we have taken a new approach to the way we carry out our follow-up. This Status Report is a new approach to reporting on that work.

What distinguishes the five chapters in this report from our previous follow-up work is the way we selected the issues, the scope and depth of our review, and the assurance our findings provide.

From routinely reporting on all previous recommendations two years after the original audit, with these new reports we move to a focus on the issues that are most significant—those that are systemic, timely, still relevant, carry higher risk, and in our view are of interest to parliamentarians. In some cases, we extended our work to include new issues that are relevant to the original audit work.

Our previous approach relied on status reports from departments on action they had taken to address our recommendations; we would evaluate those reports to assess whether they seemed plausible. In some cases we would do additional work where we believed it was warranted. The chapters in this report present instead the results of conventional audits, meeting all our normal standards of evidence and quality management.

We also decided to change the way we report our follow-up work. Previously, we included follow-up work in reports with chapters devoted to new audit work. We realized that the new recommendations overshadowed the impact our follow-up work had on both the departments' priorities for action and the visibility of the issues. The lack of visibility tended to conceal successful corrective action as well as failures to act. Now, the yearly Status Report will be devoted entirely to our follow-up work and will become one of the four reports I provide each year to the House of Commons.

Part of a continuing evolution of service to Parliament

Our new and enhanced approach to following up on previous recommendations is consistent with the evolution of this Office's efforts to provide Parliament with the information it needs to determine whether or not Canadians are getting value for money.

It so happens that the publication of this report coincides with the 25th anniversary of the *Auditor General Act* of 1977. That legislation formally broadened the Auditor General's mandate to include reporting on whether government policies are being implemented economically, efficiently, and with adequate means for judging their effectiveness. The Act marked the birth of value-for-money auditing in Canada—that is, examining whether Canadians are getting their money's worth for their tax dollars.

Legislative auditing has changed a great deal since the appointment of the first Auditor General of Canada in 1878. As government has evolved and become more complex, the kinds of information Parliament needs to hold the government to account have also changed. Accordingly, my predecessors adapted their approach to auditing, with Parliament's encouragement, to provide the needed information.

The roots of value-for-money auditing in Canada date back more than 50 years to the *Financial Administration Act* of 1951, which empowered the Auditor General to report to Parliament "any other case that he considers should be brought to the attention of the House." The fifth Auditor General, Watson Sellars, started in 1958 to report what he called "unproductive expenditures" of government funds. His successor, Maxwell Henderson, reported three such examples in his first report of 1960, and asked Parliament whether or not he should continue. The Public Accounts Committee said yes.

Value-for-money auditing was formally launched during James Macdonell's term as Auditor General, when the *Auditor General Act* of 1977 expanded his mandate to include reporting on whether government policies were being implemented economically and efficiently and whether departments had in place reliable, up-to-date measures of effectiveness. Macdonell was the first Auditor General to make recommendations to departments on how to remedy problems rather than simply enumerating them for Parliament and was the first to publish departments' reactions to findings and recommendations in his reports. Both innovations were carried on by his successors and are incorporated in the new Status Report.

Our reports do lead to change

Since 1977, the Auditor General has submitted to the House of Commons hundreds of value-for-money chapters with thousands of recommendations. Public interest peaks immediately following tabling, when the news is fresh and the media are full of stories that shock, amuse, or merely perplex. Like my predecessors, I note that public attention to the issues has not always corresponded with their relative significance.

Members of Parliament focus most visibly on the report during Question Period immediately following tabling. A less visible but more thorough examination of the issues we raise occurs in the following months, when various committees of the House and the Senate, and particularly the Standing Committee on Public Accounts, consider our reports in detail and invite senior officials from the departments concerned to answer committee

members' questions. Following these discussions, the Public Accounts Committee makes its own report to the House with recommendations to the government. Other standing committees of the House of Commons or the Senate also review our reports and issue their own.

The Public Accounts Committee's consideration of issues raised in our reports and its questioning of senior officials of departments about their actions to address them are not always noticed by the public. Though the Committee's meetings are usually open to the public, few journalists attend and there is little news coverage of the hearings, the Committee's reports, or the government's responses. As a result, the public may believe that after the initial impact of our reports, departments take no action.

However, that impression is not supported by our annual compilation of the status of recommendations we have made over the five preceding years and our assessment of departments' progress. We collect information on all recommendations for five years after an audit, and we track in a database what departments say they have done to address them. In our annual performance report, we publish the percentage of our recommendations that have been implemented satisfactorily. For the period 1996–2000, for example, our database shows that departments reported having completed the recommended action on a quarter of the recommendations we made and having made satisfactory progress on half of them.

At first, I was surprised to find that the satisfactory level of implementation indicated in our database was not matched by our evaluations of departments' progress in the five chapters of this Status Report—which are the results of our new approach to follow-up, one that is more rigorous and more intensive than the assessments in our database.

I can think of at least two reasons for this.

First, audit recommendations by their nature are intended to correct problems. Follow-up on past recommendations, then, means looking at areas where there were problems—some of which will need more time and resources to resolve. Since our new Status Report focusses on the issues that we believe need to be brought once again to Parliament's attention—the most complex and most significant issues that pose the greatest risk—it could be expected that our findings would be less than satisfactory.

In addition, some of the problems touched on in these five chapters are long-standing, extremely complex issues such as federal support for health care. In such areas, the federal government is not the only player, and we can comment only on how it carries out its share of the responsibility. However, in the following chapters the unsatisfactory progress we report indicates that the government needs to step up its efforts to correct problems that we have identified and that Parliament—and in most cases the departments themselves—agree must be addressed.

Listening to parliamentarians

Members of Parliament, particularly members of the Standing Committee on Public Accounts, have told us they want a more thorough follow-up of departments' progress in implementing our recommendations on key issues. Together, this Status Report and our annual monitoring of action on all our recommendations provide an overview of the government's progress in addressing problems identified by our audits.

I hope parliamentarians find that this new report provides the information they need to hold the government accountable and is a fitting way to mark the 25th anniversary of the *Auditor General Act* and the introduction of value-for-money auditing.



Sheila Fraser, FCA

Chapter

1

Human Resources Development Canada
The Integrity of the Social Insurance Number

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Human Resources Development Canada

The Integrity of the Social Insurance Number

Assistant Auditor General: Maria Barrados
Principal: Peter Simeoni

Key Message

1.1 Human Resources Development Canada (HRDC) has been slow to address many of the observations and recommendations arising from our 1998 audit of the management of the Social Insurance Number (SIN). In 2000 we reported that some improvements had been made in SIN records and the number of SIN-related fraud investigations had increased. In 2002 we returned, expecting to find that the problems reported in 1998 would have been largely resolved. Instead, we found that progress on some key issues has been limited. The continuing weakness in the issuing of SINs leads us to conclude that HRDC has not done enough to safeguard and strengthen the integrity of the SIN.

ORIGINAL ISSUES	PROGRESS	RATING*
<p>1.2 The SIN had become a de facto national identifier, contrary to the government's intent. We encouraged the government to consider using planned privacy legislation to address concerns about the use of SIN outside the federal government.</p>	<p>The government reaffirmed its policy that the SIN was only an account number for authorized federal programs. To help protect personal information (including the SIN) outside the federal government, it is implementing the <i>Personal Information Protection and Electronic Documents Act</i>. HRDC has examined the use of the SIN in the private sector and has made efforts to raise public awareness of how the SIN should be used.</p>	<p>SATISFACTORY PROGRESS</p>
<p>1.3 HRDC needed to strengthen its process for issuing a SIN. It also needed to address the risks associated with SINs that do not expire and are issued to people such as visitors to Canada, who often need them only temporarily (900 series).</p>	<p>HRDC has made little change since 1998 in the way it issues SINs—regular ones or 900-series. In our view, the policies and practices of the Department do not meet the intent of the <i>Employment Insurance Act</i> and Regulations because it is not doing enough to identify SIN applicants properly.</p> <p>The Department has been providing better work tools to staff, albeit slowly. It recently completed a study of the way it issues SINs, as a basis for strengthening the integrity of the process.</p>	<p>LIMITED PROGRESS</p>
<p>1.4 HRDC needed to bring the reliability and completeness of its database of SIN records to an appropriate level.</p>	<p>Millions of SIN records have been cross-checked with other HRDC programs, although millions more will not be checked. The number of usable SINs for people over 20 years old exceeds the Statistics Canada Census figure by 5 million. HRDC believes there is little risk that 2.6 million of these SINs will be used as they have been dormant for some time. It recently started investigating activity on dormant SIN records. These SINs can still be used as a first step in accessing other federal programs.</p>	<p>LIMITED PROGRESS</p>
<p>1.5 HRDC needed to strengthen its approach to fraud investigations involving the SIN.</p>	<p>HRDC has increased the number of investigations but they are not guided by a comprehensive review of where the risks lie in issuing SINs. However, the Department has started providing better tools and training to its staff.</p>	<p>LIMITED PROGRESS</p>

*Possible ratings are completed, satisfactory progress, limited progress, no progress, rejected, unknown. (See About the Audit for an explanation of the ratings.)

Human Resources Development Canada has responded. HRDC agrees with our recommendations and has committed itself to specific actions. HRDC will seek authority to cancel any SINs that have not been used in five years. It will also seek authority to place expiry dates on the SIN cards of people who are neither Canadian citizens nor permanent residents and will no longer accept photocopies of identity documents as proof of identity.

The Treasury Board Secretariat has responded. The Secretariat agrees with the recommendation we addressed to it.

Introduction

1.6 In 1998 we audited the management of the Social Insurance Number (SIN). We reported several problems in the way it was managed. We conducted a follow-up in 2000. Based on more recent audit work, this chapter provides a status report on the government's efforts to improve the integrity of the SIN.

What is the Social Insurance Number?

1.7 The Social Insurance Number was created in 1964 as a file identifier for the Canada Pension Plan, Quebec Pension Plan, and employment insurance (then unemployment insurance) programs. Under the current *Employment Insurance Act*, the Canada Employment Insurance Commission assigns "a number that is suitable for use as a file number or account number or for data processing purposes and the number so assigned...is the person's Social Insurance Number...." The SIN is a unique, nine-digit number assigned to each individual, and a person legitimately has only one number at a time.

1.8 The government's current policy views the SIN as a file identifier or account number for specifically authorized activities (Exhibit 1.1). The *Employment Insurance Act* and Regulations require that a SIN be issued only after an applicant's identity and citizenship status have been determined.

Who is involved in administering the SIN?

1.9 The Canada Employment Insurance Commission is named in the Act and Regulations as the body responsible for SIN administration. On behalf of the Commission, Human Resources Development Canada (HRDC) issues SINs and maintains the Social Insurance Register, which holds all relevant information on SIN applicants. The Treasury Board is responsible for the SIN policy, and the Treasury Board Secretariat is responsible for developing guidelines that govern how federal departments collect and use the SIN. The Canada Customs and Revenue Agency uses the SIN in administering the *Income Tax Act*. The Office of the Privacy Commissioner of Canada monitors federal organizations for their compliance with the *Privacy Act*, which governs the protection of personal information, including the SIN. For example, departments are required to inform the Privacy Commissioner of any significant changes to existing uses of personal information, specifically any new uses or disclosures.

1.10 In 2001–02, HRDC spent about \$16.7 million on SIN administration and collected close to \$2 million from people applying for replacement SIN cards. It issued a total of 1.2 million new cards and replacements.

Why is the integrity of the SIN important?

1.11 **The SIN is needed to access federal programs.** Several of the federal government's largest programs use the Social Insurance Number. In 2000–01 the SIN was the key account number on about three million applications for Employment Insurance benefits that totalled \$9.5 billion and Canada Pension

Plan and Old Age Security benefits that totalled \$43.7 billion. Applicants for benefits under these programs need a SIN. In 1998 we reported that by using the SIN, various programs had been able to avoid or recover overpayments and improve administrative efficiency, thereby achieving significant savings.

1.12 Widespread use of the SIN outside the federal government. Use of the SIN in the private sector began when the government made it a personal identifier for income tax, in 1967. Since then, the *Income Tax Act* has been amended several times to require that various public agencies collect a person's SIN in their transactions and to ask the same of private sector organizations, such as insurance companies and financial institutions. Various

Exhibit 1.1 Uses of the SIN in the public and private sectors

Public sector	
Federal government—Areas of use authorized by Treasury Board policy	
Human Resources Development Canada	Other legislation and programs
Canada Education Savings Grants	<i>Canada Elections Act</i>
<i>Canada Labour Code</i>	<i>Canada Wheat Board Act</i>
Canada Pension Plan	<i>Family Orders and Agreements</i>
<i>Canada Student Financial Assistance Act and Regulations</i>	<i>Enforcement Assistance Act</i>
<i>Canada Student Loans Act</i>	<i>Farm Income Protection Act</i>
<i>Employment Insurance Act</i>	Immigration Resettlement Assistance Program
<i>Labour Adjustment Benefits Act</i>	Income and Health Care programs (Veterans Affairs Canada)
Labour Adjustment Review Board	National Dose Registry for occupational exposures to radiation
Old Age Security Regulations	Rural and Native Housing Program (Canada Mortgage and Housing Corporation)
Canada Customs and Revenue Agency	Social Assistance and Economic Development Program (Indian and Northern Affairs Canada)
<i>Excise Tax Act</i> (Part IX—GST)	Veterans Allowance Regulations
Gasoline and Aviation Gasoline Excise Tax Application Regulations	
<i>Income Tax Act</i>	
Income tax appeals and adverse decisions	
Tax Rebate Discounting Regulations	
Other jurisdictions—some areas of use	
Health insurance	
Social assistance	
Welfare	
Workers' compensation	
Private sector	
Interest reporting to the Canada Customs and Revenue Agency (by, for example, banks, trust companies, stock brokers)	
Income tax identification	
Employer file number	
Client identification (for example, membership in video stores)	
Credit check (by, for example, car dealerships, department stores, cellular telephone companies, landlords)	

Source: Statistics Canada and Treasury Board Secretariat

documents we examined also indicated that provinces and municipalities use the SIN in administering social assistance and other programs. In short, many organizations collect SINs from Canadians and then retain that information.

1.13 The widespread use of the SIN for many different purposes gives it a value that means it must be linked with only its rightful owner. When it is not, government benefits, tax refunds, or bank credit may go to the wrong person.

1.14 Opportunities for SIN fraud. According to HRDC, between 1964 and 1976 almost 19 million SINs were issued without requiring the applicants to provide proof of their identity. In 1976, the government began requiring that new applicants and card holders seeking replacement cards furnish documents such as birth certificates to prove their identity. Due to cost considerations, the government decided not to require the 19 million people who already had a SIN to register again with proof of their identity.

1.15 According to HRDC, the proof-of-identity requirements established in 1976 are no longer sufficient. New technologies have made it relatively easy to forge identity documents such as birth certificates. HRDC has anecdotal reports from the Royal Canadian Mounted Police, other police agencies, and its own employment insurance investigators that illustrate how easily fraud can be perpetrated and SINs issued that should not be issued. In addition, the plastic SIN card can be used as an identity document, although it has no modern security features and is easily forged. There is a wide range of fake documents available on the Internet, including birth certificates. The formula for generating a false SIN that will look like a valid one can also be accessed on the Internet.

1.16 Impact of SIN fraud. In 1998 we noted that obtaining a SIN fraudulently can be part of developing a false identity and an initial step in schemes to obtain government services or credit fraudulently or evade taxes.

1.17 In both Canada and the United States, identity fraud is a growing concern. The SIN and its U.S. counterpart, the social security number, can play an important role in this kind of crime. American authorities report that social security numbers, along with dates of birth and mothers' maiden names, are among personal identifiers often used in a wide range of identity-related frauds. These frauds can be steps toward far more serious crimes.

1.18 The Canadian Council of Better Business Bureaus reports that stolen identity is one of its top three concerns. Equifax Canada Inc., a consumer and commercial credit reporting company, states that the incidents of identity theft it handles increased from 4,000 cases in 1998 to over 12,000 cases in 2001. The U.S. Federal Trade Commission reported that in 2001 it processed more than 86,000 reports from victims of identity theft. In a recent report to Congress, the General Accounting Office concluded that the prevalence and cost of identity theft in the United States appear to be growing.

1.19 According to HRDC, the expanded use of the SIN by other levels of government and institutions has both increased the potential for SIN fraud and extended its impact. For example, once someone has established a false

identity that includes a SIN obtained fraudulently from HRDC, that identity can be used to access federal and provincial social programs, to defraud banks, and to misrepresent income to the Canada Customs and Revenue Agency. As the Web site of the Office of the Privacy Commissioner of Canada notes, a valid SIN can also be used to steal a real identity. It is possible to use someone else's SIN along with other personal information to apply for a credit card, open a bank account, and rent vehicles, equipment, or accommodation in that person's name, leaving the victim responsible for the bills, charges, bad cheques, and taxes. Exhibit 1.2 provides recent examples of the kinds of crimes in which the SIN has played a part.

Exhibit 1.2 Crimes involving the Social Insurance Number

While some of these issues are outside the direct control of the federal government, crimes involving SINs are a problem.

- An individual arriving in Canada applied for refugee status, which was denied. He began working illegally and subsequently applied for Employment Insurance benefits using his son's SIN card. The individual's common-law wife was also working illegally, using their daughter's SIN; his brother was committing the same crime, using his own son's SIN.
- An individual was caught making false documents and using them to impersonate individuals. At the time of his arrest, he had in his possession various fraudulent cards, including SIN cards with various names. With the false documents, he had been able to change the victims' personal identification numbers for access to their lines of credit, credit card accounts, and chequing and savings accounts. Using similar methods, he succeeded in obtaining thousands of dollars from two victims' bank accounts.

Source: Human Resources Development Canada

What we found in 1998

1.20 Our 1998 audit found that the SIN had become a common numerical identifier both inside and outside the federal government in a wide range of income-related transactions and benefits. We reported several weaknesses in the administration of the SIN, including the following:

- Information held by HRDC on SIN holders, particularly on births and deaths, was not always complete and accurate.
- Procedures to apply for a SIN were not sufficient to guard against fraud and abuse. Millions of SIN holders who had registered before the proof-of-identity program was introduced in 1976 had not been asked to furnish documents that proved their identity. This exacerbated the risk of misrepresentation.
- The provinces and financial institutions were required by the *Income Tax Act* and Regulations to collect SINs for tax purposes, but could not validate the SIN numbers provided by their clients.

- SIN errors, abuse, and misuse affected many federal and provincial programs and the private sector. Collectively, the impact may have been sizable.
- HRDC was dedicating minimal effort to investigating SIN fraud and abuse, and penalties were minimal, with no real impact on deterrence.
- Unregulated use in the private sector (except in Quebec) made the SIN vulnerable to abuse—both fraud and invasion of privacy.

1.21 Our report contended that it was time to review the current role, objectives, and uses of the SIN in light of the important function it serves in government and society. The government needed to state clearly the level of integrity and protection of privacy expected in the system.

What has happened since 1998?

1.22 HRDC, the Canada Customs and Revenue Agency (CCRA), Citizenship and Immigration Canada, Industry Canada, and the Department of Justice Canada accepted our 1998 recommendations and observations. The Standing Committee on Public Accounts and the Standing Committee on Human Resources Development subsequently held hearings and issued reports to the House of Commons on the SIN. Both committees substantially agreed with our recommendations.

1.23 HRDC created five working groups to address our recommendations for better management of the SIN. These groups were made up of representatives of the departments involved in the SIN program: HRDC, the CCRA, and Citizenship and Immigration Canada. The working groups reported to HRDC in February 2000.

1.24 Our December 2000 follow-up reported that HRDC had taken several measures to improve the integrity of data in the Social Insurance Register; it had increased the number of SIN investigations and had other initiatives under way to address some of our 1998 recommendations. We indicated that a government-planned study on the impact and use of the SIN would provide essential information to help the government and parliamentarians make sound decisions about the future of the SIN, the advisability of restricting its use, matching of the data, and protection of privacy.

1.25 Early in fall 2001, HRDC submitted a plan to the Treasury Board for improving the management of the SIN. The Department advised the Treasury Board that without significant new funding it would be unable to improve the integrity of data in the Social Insurance Register to an acceptable level, assess the effectiveness of current SIN policies, make its proof-of-identity requirements more rigorous, increase the number of SIN investigations, or undertake a national public awareness campaign. According to HRDC, the new funds it later received were not enough to carry out these activities. It did not reallocate its resources to fund them.

Focus of the audit

1.26 The objective of our audit was to determine whether the government has safeguarded and strengthened the integrity of the Social Insurance Number. We examined its actions on the key concerns we raised in 1998 and the concerns of the Standing Committee on Public Accounts and the Standing Committee on Human Resources Development. More details appear in About the Audit at the end of the chapter.

Observations and Recommendations

Role and importance of the SIN

Use of the SIN outside the federal government

1.27 Responding in December 1999 to a recommendation by the Standing Committee on Human Resources Development, HRDC submitted a report confirming that the SIN's primary role was as a file number in the administration of authorized federal programs. The government rejected the idea of legislation to restrict the use of the SIN outside the federal government. Recognizing concerns about privacy of personal information, including the SIN, in the private sector, it introduced the *Personal Information Protection and Electronic Documents Act*.

1.28 That legislation provides Canadians with, among other things, the right to the protection of their personal information in the private sector. It defines the principles that govern the collection, use, and disclosure of personal information and provides a framework to address complaints of alleged breach of these principles. The Act (which will not be fully implemented until 2004) does not deal specifically with the SIN but captures it in the definition of personal information. It requires that an organization explain why it needs personal information and obtain the person's consent to use it. This could serve to limit the use of the SIN. Prohibiting its use outside of the federal government, however, was not included in legislation.

1.29 HRDC asked Statistics Canada to study the extent to which the SIN is used in the private sector but did not study its use in the voluntary sector or the public sector of the provinces and territories. The study by Statistics Canada concluded in February 2001 that SINs were being collected from employees and clients for a wide range of purposes. The study revealed the following:

- 94 percent of employers ask for a SIN when hiring an employee;
- 86 percent of employers do not know their obligations related to the SIN's 900 series (issued to applicants who are not Canadians or permanent residents and who cannot work in Canada without an employment authorization from Citizenship and Immigration Canada);
- 6 percent of all businesses surveyed and 27 percent of businesses with more than 250 employees have been given a false SIN by employees, although few reported any losses as a result;

- 10 percent of businesses surveyed have used SINs as employee file numbers;
- 14 percent of all businesses surveyed and 57 percent of businesses with more than 250 employees have used SINs to identify their employees' insurance and pension files;
- 19 percent of businesses surveyed have shared SINs with insurance companies that provide coverage to employees (only 5 percent did so at the request of the employee); and
- 9 percent of businesses surveyed have asked their clients for SINs and used them for a variety of purposes such as credit checks, proof of identity, and file numbers.

1.30 Partly as a response to these survey results, HRDC undertook a number of public awareness activities on the SIN. However, their scope was limited by their primary focus on certain clients of the Department, particularly Canada Pension Plan beneficiaries and visitors to local HRDC offices. The Department also placed information on its Web site. It did not take other measures that would have reached a larger public, such as using the national media. HRDC has not measured the public awareness campaign's effectiveness in informing individuals, employers, and other stakeholders about how and when to use the SIN.

1.31 Recommendation. Human Resources Development Canada should assess the public awareness of how and when to use the Social Insurance Number appropriately and should carry out public education efforts as needed.

HRDC's response. As the Auditor General notes, HRDC did undertake a range of public awareness activities during 2001 and 2002. These included brochures, information to clients, and changes to the message on the SIN card itself. HRDC will assess the effectiveness of its Social Insurance Number public awareness activities during 2002–03. The Department will use the results of that assessment to guide the next phase of its public education efforts that will begin in 2003–04.

Problems with the use of the SIN

1.32 The Treasury Board policy implemented in 1989 reflects the government's intention to restrict the use of the SIN by federal institutions to specified tax, pension, social, and benefits programs. The policy on the use of the SIN lists acts and regulations requiring its use and programs authorized to use the SIN. The Treasury Board Secretariat has not updated the policy governing the SIN since 1989.

1.33 Although the SIN has been studied from many aspects since 1998, what has not been assessed is how federal programs use it and to what extent they rely on it. HRDC, for example, requires the SIN of applicants for benefits in its large programs. However, it is unclear whether HRDC uses the SIN as simply a number to manage a recipient's file or also as a means to help establish recipient's identity.

1.34 Although the government has reaffirmed its policy that the SIN is simply a file number and therefore not a form of identification, it has not given departments direction on acceptable ways to identify program beneficiaries, except for on-line services. Properly identifying clients is a fundamental control in any government program.

1.35 The Treasury Board Secretariat became aware in 2000 that HRDC's Opportunities Fund for Persons with Disabilities program was using the SIN without Treasury Board authorization. Follow-up work by the Department and the Secretariat found two other HRDC employment assistance programs (Youth Initiatives and Aboriginal programs) using the SIN without authorization. During our audit, the Department was attempting to remedy the situation by working closely with the Treasury Board Secretariat. It received the support of the Privacy Commissioner for using SINs in these programs.

1.36 Further to its work in HRDC, the Secretariat decided to review whether federal institutions are respecting the policy that governs the use of the SIN. It will also consider revising the policy and developing guidelines for all federal institutions. The Secretariat expects to report the results of its review to the Treasury Board by June 2003.

1.37 Recommendation. Human Resources Development Canada should use the SIN only where authorized by the Treasury Board.

HRDC's response. HRDC is working with the Treasury Board Secretariat and the Privacy Commissioner of Canada to include the three programs to which the Auditor General refers on the list of authorized uses. This will enable HRDC to fulfil its commitment to full compliance and underline the fact that the SIN is intended to serve solely as a file identifier for Government of Canada-related purposes.

1.38 Recommendation. In its review, the Treasury Board Secretariat should look at why and how departments are using the SIN.

Treasury Board Secretariat's response. During its review, the Treasury Board Secretariat will closely examine the uses of the SIN by federal institutions and will make every effort to resolve any issues related to the Treasury Board policy concerning the SIN.

Integrity of the issuing process

Applying for a SIN

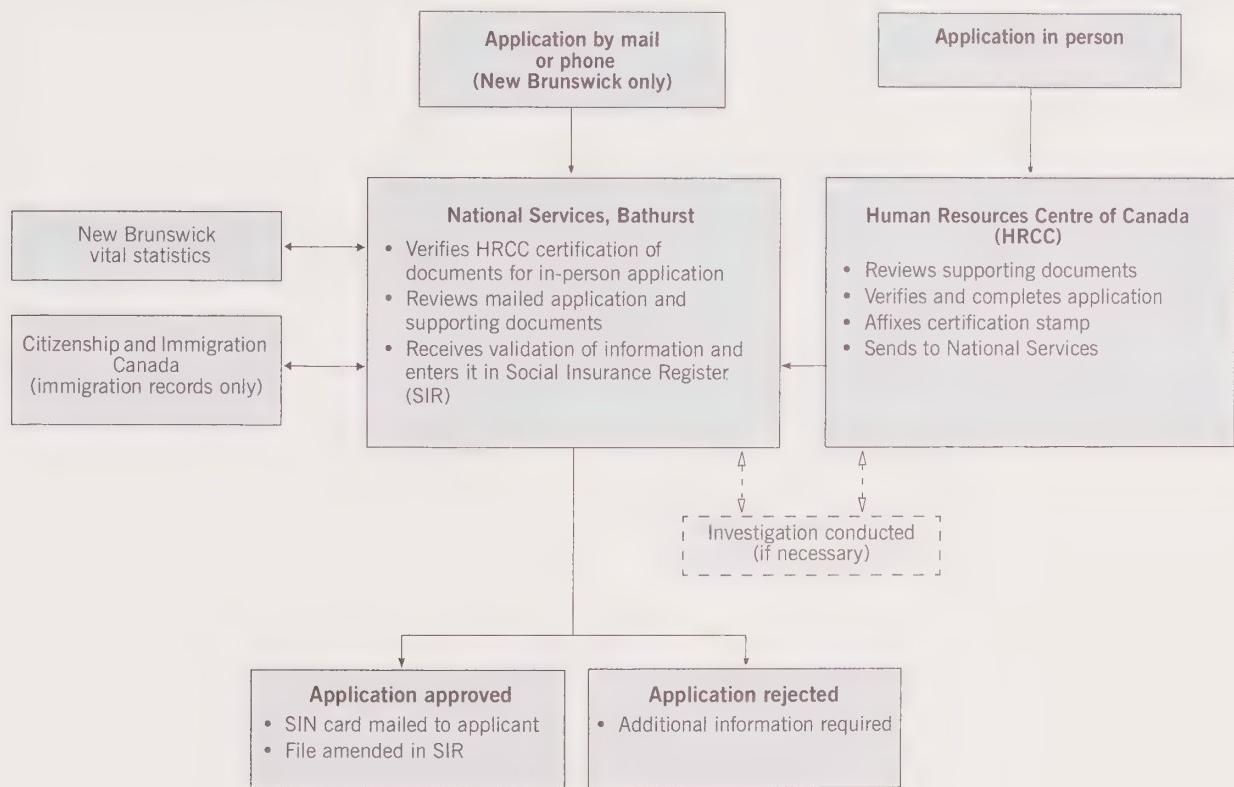
1.39 An application for a SIN is generally presented in person at one of the 320 Human Resources Centres across Canada. An HRDC representative reviews the application for completeness and examines the document offered as proof of identity and status in Canada. The representative records relevant information from the document submitted and then stamps and initials the application. The stamp indicates to the Department's National Services in Bathurst, New Brunswick (which issues all SIN cards) that 1 of the 38 acceptable documents has been seen and the application is complete, accurate, legible, and valid. The application is then sent to National Services for review and for input in the Social Insurance Register, and the card is

issued. Applications can also be mailed directly to National Services with an original document or a certified photocopy. The process is illustrated in Exhibit 1.3.

1.40 Over 1.2 million applications are processed each year; about 1 million new SINs are assigned and about 200,000 replacement cards issued. Since 1998 the Department has issued over 3.7 million new and replacement SIN cards.

Exhibit 1.3 Processing a SIN application

SIN applications are made, for example, to request a SIN, a replacement card, or a change of name or status.



SINs are issued without proper control

1.41 We expected to find that HRDC was meeting the requirements of the *Employment Insurance Act* and Regulations in issuing SINs and that it had strengthened its controls over SINs. Instead, we found serious weaknesses in the issuing of SINs, and in our view HRDC is not doing enough to safeguard the SIN's integrity.

1.42 In our view, HRDC's policies and practices do not meet, in important respects, the intent of the *Employment Insurance Act* and Regulations. Under the Act, the Canada Employment Insurance Commission is required to identify accurately all persons to whom it assigns a SIN. The Regulations to

the Act specifically require HRDC to determine both the identity and the citizenship status of SIN applicants. However, HRDC currently requires that a SIN applicant be asked for only one document as proof of both identity and citizenship. Many of the 38 different documents that HRDC accepts, such as birth certificates, cannot be linked to the person applying for a SIN. A document may show citizenship status, for example, but has no photograph or description of the owner to help identify the bearer of the document as its owner. In our opinion, determining identity properly would mean requiring additional identification. Consequently, our view is that HRDC's policies and practices do not respect the intent of the *Employment Insurance Act* or Regulations. We are concerned that for the majority of the SINs issued since 1998, the applicant's identity and citizenship status were not checked properly because a single piece of identification is usually insufficient to check both.

1.43 In 1998 we observed that many of the documents HRDC was accepting had significant drawbacks. We recommended that the Department assess the reliability of identity documents used to support applications for a SIN and that it take corrective action where needed. In our audit this year, we found that the Department had done little to strengthen its process of issuing SINs and was still reconsidering its approach to proof of identity and citizenship. It was accepting Quebec baptismal certificates or birth certificates issued before 1994, although the Government of Quebec had asked it to stop accepting these certificates because they are difficult to authenticate and could have been falsified. HRDC was also accepting as proof of identity and citizenship other documents with higher risk of falsification, such as expired Canadian passports no matter how old. However, at the end of our audit HRDC announced that it would stop accepting these documents as of August 2002, in order to strengthen the SIN proof-of-identity requirements.

1.44 As already noted, HRDC does not require applicants to submit documents in the original; it accepts photocopies that have been certified as true copies by people in a wide range of occupations. The Department does not check the information, even on a sample basis, with the people who have certified the photocopies it accepts. In our view, photocopies represent a greater risk of falsification. Moreover, accepting photocopies circumvents one of the key controls in the processing of applications—the comparison by HRDC staff of documents presented by applicants with pictures of authentic documents and descriptions of their security features.

1.45 For the most part, the Department does not have the means to contact the authority that issued the documents to check their validity. Exceptions are the checking of immigration documents with Citizenship and Immigration Canada and of birth certificates with the Vital Statistics Branch of New Brunswick's Department of Health and Wellness—which together account for about 30 percent of applications that HRDC processes. These checks verify that the document is valid but do not confirm that the bearer of the document is its rightful owner.

1.46 We also found that the Department's policies on issuing SINs focus less on safeguarding the integrity of the application process and more on satisfying the applicant. For example, HRDC staff are advised to use discretion when they attempt to confirm an applicant's identity if presented with documents of questionable validity, in case the applicant views their attempts as harassment. Moreover, HRDC's rules are unclear in many respects and are therefore subject to misinterpretation. We found examples of contradictory statements and ambiguous instructions.

1.47 During our audit, HRDC completed a study to identify ways to improve how it issues SINs while reducing the processing time. The Department informed us that it intends to use the results of this study in its planned changes to its process.

Staff lack adequate training, tools, and information

1.48 All HRDC staff should be processing SIN applications in a consistent way. However, we found that job responsibilities, training, tools, and information for issuing SINs vary greatly among local HRDC offices. There is a risk that how much attention a SIN application receives depends on where it is submitted and who processes it.

1.49 Responsibilities may not be understood clearly. For example, while all staff are responsible for fraud detection, most front-line staff we interviewed said they tend to rely on National Services in Bathurst to detect fraud. For applications handled initially by HRDC's local offices, however, National Services relies on the local staff to detect fraud. And despite high rate of turnover in some offices, no formal training is given to staff before they start handling applications. Computer-based training is available on the Department's internal network. However, we observed in the offices we visited that new employees were often left to learn on the job.

1.50 HRDC has made some progress in providing staff with tools for fraud detection. For example, it introduced risk indicators for staff of local offices to use on incoming applications. It also issued a guide containing pictures and descriptions of security features of authentic documents for comparison with documents presented by applicants. In early 2002, it supplied regional offices with ultraviolet lamps (to help detect fraudulent documents) for distribution to all local offices. When we visited local offices, however, we noted that some had not obtained the lamps and that generally staff had received no training in their use.

Inadequate control over SINs issued to applicants who are not Canadians or permanent residents

1.51 HRDC also issues SINs to short-term visitors, refugee claimants, seasonal workers, and foreign students. A SIN can also be issued to citizens of other countries, even if they are not visiting or residing in Canada. These numbers begin with a 9 to distinguish them from regular SINs and to indicate that the bearer requires separate authorization to work in Canada. When a person who has been issued a 900-series SIN is granted Canadian citizenship or becomes a permanent resident and applies for a regular SIN, HRDC

cancels the 900-series SIN and assigns a regular number in its place. Over time, HRDC has issued close to 1.6 million 900-series SINs. At the end of 2001, the Social Insurance Register showed more than 900,000 of these SINs that had not yet been cancelled.

1.52 Since our 1998 audit, the Department has made no changes in the way it controls the 900-series SINs. We found that, as in the case of regular SINs, HRDC does not take adequate steps to establish the identity of people who apply for 900-series SINs. It requires only one document to prove both identity and citizenship. It will accept any one of a range of documents produced by the Government of Canada (such as immigration forms) and by foreign governments (such as passports). While passports demonstrate both identity and citizenship, many other documents do not. And staff have no training or tools to verify the validity of documents issued by foreign governments. Moreover, HRDC will accept photocopies of these documents (including foreign passports). Detecting fraud is more difficult when working with photocopies.

1.53 Furthermore, under the Regulations to the *Employment Insurance Act*, HRDC is supposed to require applicants for 900-series SINs to show why they need one. Some of the identity and citizenship documents HRDC accepts (for example, an authorization to work in Canada) might suggest why the person would need a SIN, but most indicate only that the person is allowed to be in Canada. We found that the Department does not require staff to get an explanation from all 900-series applicants as to why they need a SIN (see the case study below). Since 1998 the number of 900-series SINs assigned each year has been increasing. According to HRDC, this trend is consistent with the changes that Citizenship and Immigration Canada has reported in the temporary resident and refugee claimant population. In 2001, over 110,000 of the 900-series SINs were issued; this was 41 percent more than in 1998.

Processing 900-series SIN applications

This case illustrates the frustrations that some staff face at Human Resources Centres of Canada in processing 900-series SIN applications.

A front-line worker in a large Canadian city began to question why individuals who were in Canada as visitors for short periods of time were requesting and receiving SIN cards. Despite expressing concern that SINs were being issued to individuals who did not need them, he was instructed by management to process the applications. He did, but submitted them to National Services without including the required certification stamp or the numbers of the submitted documents and provided for each application a photocopy of the passport and the entry stamp, hoping that this would cause National Services to reject the applications. National Services did not reject the applications; it approved them and issued the SIN cards to visitors to Canada.

1.54 As in 1998, the 900-series numbers and the cards do not expire. Most people holding them are expected either to be in the country only temporarily or to gain permanent status in Canada and be granted a regular number. We noted during our audit, however, that more than 60 percent of 900-series

SINs that have not been cancelled were issued more than five years ago. It is likely that the original holders have left the country, but there is no way of knowing what happened to their cards.

1.55 Recommendation. Human Resources Development Canada should ensure that its policies and practices respect the intent of the *Employment Insurance Act* and Regulations, which require it to

- determine the identity and citizenship status of applicants for a Social Insurance Number; and
- obtain proof of the need for a Social Insurance Number from applicants who are not Canadian citizens or permanent residents.

1.56 Recommendation. Human Resources Development Canada should reconsider its goals for the 900-series SIN and the associated risks. It should revise its policy and practices accordingly.

1.57 Recommendation. Human Resources Development Canada should improve the integrity of its SIN application process. In particular, it should

- assess the reliability of the identity and citizenship documents it accepts as support for applications and implement corrective action where necessary;
- make reasonable efforts to develop a means of checking the validity of identity and citizenship documents with the authorities that issued them; and
- ensure that staff have the training and tools to comply with the *Employment Insurance Act* and Regulations when they process applications for a Social Insurance Number.

HRDC's response. HRDC is building on previous initiatives to improve the integrity of the issuing process to ensure that it is meeting the Social Insurance Number goals of the *Employment Insurance Act*.

As of August 1, 2002, the Department implemented a uniform standard for Canadian-born applicants when it stopped accepting baptismal certificates from applicants born in Quebec and Newfoundland and Labrador. HRDC will build on this step by implementing its decision to render certified photocopies ineligible as proof of identity by November 1, 2002. This means that HRDC will accept only original documents to prove identity for applications made in-person or through the mail. The Department will accelerate the necessary training of staff on policies and procedures, including the new proof-of-identity requirements. Initiatives such as the use of ultraviolet lights to examine original documents, and improved staff training, enhance HRDC's security measures.

In February 2002, the Department reviewed how SIN applications are processed and is considering ways to further strengthen proof of identity, such as implementing a guarantor system similar to the one used for the Canadian passport; or including photo identification as part of the application process.

HRDC will continue with efforts that it has been making since 1998 to access vital statistics databases of the provinces and territories. It should be recognized that, with privacy and security concerns, these partnerships take time. Eventually, as is the case right now in New Brunswick, this will allow the Department to directly, accurately, and consistently verify birth information provided by Canadian-born SIN applicants with the province or territory of birth. HRDC is currently working toward a pilot project with British Columbia to verify the information provided on a SIN application with the provincial vital statistics agency.

HRDC is taking steps to amend the Employment Insurance Regulations to improve the management of SINs needed by people who are neither Canadian citizens nor permanent residents (900-series). Under this change, these 900-series SINs will be limited to an amount of time that is linked to the individual's authorized stay in Canada, rather than indefinitely. These SIN cards will display the expiry date of that Social Insurance Number.

HRDC also recognizes the need to address the issue of existing 900-series SINs. In order to bring about consistency, and after regulatory approval is obtained, existing 900-series SIN cardholders will have a reasonable period of time to provide acceptable proof of identification and proof of need to obtain a new card.

The Department anticipates that these measures represent additional significant improvements in the overall security and accuracy of the Social Insurance Number database.

Integrity of the Social Insurance Register

1.58 The Social Insurance Register is the database that records the personal information provided by individuals who apply for a SIN. It contains all the SINs issued so far and basic personal information such as name, date of birth, father's name, and mother's maiden name. In 1998 we reported that the integrity of the Register was a major concern. We expected to find in this audit that HRDC had largely resolved this concern and ensured that the information in the Register was reasonably accurate and complete.

Action taken to date

1.59 In 1998 we recommended that HRDC set out a plan for bringing the reliability and completeness of the Register up to an appropriate level. In 2002 we found that the Department has not carried out a comprehensive approach for improving the integrity of the information. According to HRDC, a lack of funding prevented it from implementing the improvement plan it had originally developed in response to our 1998 concerns. At the end of our audit, there was still no standard for the quality of information in the Register.

1.60 Nevertheless, HRDC has attempted to improve the Register through various initiatives. The Department has compared data in the Register with the Old Age Security and Canada Pension Plan (CPP) records of almost 10 million people, and personal information has been updated accordingly.

This included

- cross-checking CPP and Old Age Security files against at least 3 million SIN records for which HRDC had never obtained proof of identity;
- noting on 101,000 SIN records that the individual had died; and
- changing about 276,000 incorrect dates of birth.

1.61 The Department undertook various initiatives to obtain more accurate information on deaths. Since 1998, it has received over 4.8 million death notices from different sources, such as the Canada Customs and Revenue Agency and the Old Age Security and Canada Pension Plan programs.

1.62 The Department also implemented SIN Tele-App which allows clients in New Brunswick to apply for a SIN by telephone. Their information is validated against the database at the Vital Statistics Branch of New Brunswick's Department of Health and Wellness or against Citizenship and Immigration Canada's immigration database.

1.63 HRDC has built into its system some indicators to detect potentially fraudulent applications. However, it could add other indicators of unusual activity, such as SIN cards mailed to a post office box, cards returned to National Services and never claimed, or multiple cards sent to the same address. A special study by the Department in 2001 found that in many cases HRDC had mailed more than 100 SIN cards (with different numbers) to a single address over a period of a year (including 225 cards to one address). Because the Department does not track such activities, it did not detect these events as it processed the applications; nor did it investigate them afterward.

Information in the Register can be improved further

1.64 One of the main difficulties in maintaining the Register is that HRDC is not advised routinely of births or changes of name. Although HRDC receives death notices from many sources, it indicates that this information is not comprehensive. The integrity of the Register would be improved if the Department had access to provincial and territorial vital statistics. During our audit, HRDC initiated discussions on this subject with the Vital Statistics Council, an interjurisdictional advisory group comprising the heads of the vital statistics divisions/agencies from all the provincial and territorial governments and the Health Statistics Division of Statistics Canada. The Council provides a forum for developing common approaches to collecting vital statistics, sharing information with outside parties, and facilitating problem solving for issues related to vital statistics.

1.65 However, HRDC has not pursued other sources of information that could improve the Register. For example, it lacks formal agreements with federal departments that issue identity and citizenship documents, such as citizenship cards and passports. While HRDC compares monthly Register data with Old Age Security data, it has not yet done so with the Canada Pension Plan or the Quebec pension plan (*Régime de rentes du Québec*). At the end of our audit, HRDC was involved in discussions with the CPP and

the Quebec pension plan. As already noted, HRDC has made efforts to improve the Register's information on deceased people. However, many of the death notifications it receives are not checked with provincial or territorial vital statistics.

Dormant file review

1.66 HRDC classified over 3.2 million SINs as dormant after obtaining evidence from the Canada Customs and Revenue Agency that the SINs belonged to people over the age of 23 who had not filed a tax return, or for whom no income had been reported from 1993 to 1997.

1.67 The intent of this exercise was to help explain the gap between the number of SINs and the population and to flag SINs for greater scrutiny if the Department were to receive an application for a replacement card or any other changes. Until May 2002, however, National Services was processing transactions involving dormant SINs without investigating them. It simply removed the dormant marker from the file and took no special action to ensure that the transaction was legitimate.

1.68 In May 2002, HRDC began routinely investigating SIN-related transactions in dormant files. These dormant SINs can still be used as a first step to access benefits such as Employment Insurance, Canada Pension Plan, and Old Age Security—because federal programs that use SINs are not informed of those that are dormant. HRDC advised us that other information in addition to the SIN is required to establish eligibility for its benefits or entitlement to them.

1.69 The Department has found problems in the way the dormant file exercise was carried out. For example, the results excluded SINs that should have been identified as dormant: they did meet the screening criteria. In our view, the identification of dormant SINs has done little so far to reduce the gap between the number of usable SINs and the size of the population. By a usable SIN, we mean one that can be used as an account number in transactions with the federal government and not raise any concern or suspicion in itself.

Problems with information integrity persist

1.70 There are still significant discrepancies between the number of usable SINs and Statistics Canada's estimates of the Canadian population over 20 years old. While the Social Insurance Register is not a census of the Canadian population and comparing it with Statistics Canada's census presents some problems, the question remains: Why would there be millions more usable SINs than Canadians who could use them?

1.71 These discrepancies concern us, as they did in 1998. Despite HRDC's efforts to improve its information on SIN holders, the Register still contains significant variances from population estimates—variances that have increased over the past four years (Exhibit 1.4). While excluding the dormant SINs would reduce these discrepancies from 5 million to 2.4 million, we

included them in the exhibit because they are still usable as a first step to access federal benefits. In HRDC's view, dormant SINs are unlikely to be used in the future.

1.72 However, even with the dormant SINs removed, 2.4 million is a significant gap. The Department suggests that these excess SINs probably represent people who have left the country (most often, holders of 900-series SINs), deaths of which HRDC has not been notified, people with multiple SINs, and frauds; or they could reflect the timing of the census. In our view, HRDC needs to explain the variances fully.

Exhibit 1.4 Comparing the Social Insurance Register with the population (2001 Census)

Age	Usable SINs in the Social Insurance Register	Population based on Statistics Canada's 2001 Census	Variances
20–29	4,378,563	3,854,010	524,553
30–39	5,390,632	4,619,595	771,037
40–49	5,838,149	4,912,295	925,854
50–59	4,656,062	3,679,995	976,067
60–69	2,899,245	2,407,405	491,840
70–79	2,153,021	1,822,880	330,141
80–89	1,102,428	797,925	304,503
90 years or more	829,687	134,120	695,567
Total	27,247,787	22,228,225	5,019,562

Source: Human Resources Development Canada and Statistics Canada

1.73 Another issue identified in this audit is the number of SINs that have never been cross-checked with other departments or supported by any proof-of-identity documents. These SINs were issued before the introduction in 1976 of the proof-of-identity program. The SIR shows over 8.3 million of these usable SINs. This represents a significant decrease from 1998. HRDC has accomplished this mainly by obtaining information from the CPP and Old Age Security programs. Due to the cost and inconvenience to SIN holders, HRDC does not plan to certify the remaining SINs systematically but only when there is a new transaction. However, it hopes it will be able to certify many more of these SINs if and when it is given access to provincial and territorial vital statistics or other official sources of information.

HRDC needs to better report on its improvements to the Register

1.74 We are concerned that HRDC reported the improvements it has made to the Social Insurance Register in a way that could be misinterpreted.

1.75 In its March 2000 *Performance Report*, HRDC said it had closed the gap between the number of SINs and the population to 800,000. It arrived at that figure by assuming that all holders of dormant SINs had died or left the country, although it had no proof that either was the case. Moreover, the identification of dormant SINs simply provided a possible explanation for a large portion of the gap between data in the Register and population estimates at that time. HRDC had taken no steps to actually reduce or close the gap. The dormant SINs could still be used as a first step to access benefits.

1.76 In its December 1999 response to the Standing Committee on Human Resources Development, HRDC implied that by identifying dormant SINs it had reduced the number of uncertified SIN records by 2.6 million. In our view, there is no relationship between dormant SINs and uncertified SINs. Dormant SINs are those that have not been used for some time, whereas uncertified SINs are those for which the personal information has not been verified. Declaring a SIN to be dormant does not somehow validate the personal information that HRDC has on record.

1.77 Recommendation. Human Resources Development Canada should set goals for the completeness and reliability of the Social Insurance Register and take the steps necessary to meet them.

HRDC's response. HRDC has made numerous improvements to its Social Insurance Number database, the Social Insurance Register (SIR), to make it more complete and reliable. Since 1998, HRDC has certified the accuracy of millions of SIN records. The Department has also identified 3.2 million other SINs that have not been used in at least five years, which includes 600,000 SINs of deceased individuals. HRDC conducts investigations as appropriate if someone then uses those Social Insurance Numbers to apply for Employment Insurance or is seeking a replacement SIN card.

To provide greater security, HRDC is taking steps to amend the Employment Insurance Regulations to cancel SINs that have not been used in five years. Once a SIN is cancelled, a person will be required to provide acceptable proof of identity to reactivate that SIN.

The Department has initiated a comprehensive review of the Social Insurance Register. That review will assist HRDC to set goals for SIR integrity, define the actions and timeframes needed to meet those goals, and implement the additional required changes. This process will be completed by April 2003.

1.78 Recommendation. Human Resources Development Canada should ensure that its reporting of improvements to the quality of the information in the Social Insurance Register is clear and unambiguous.

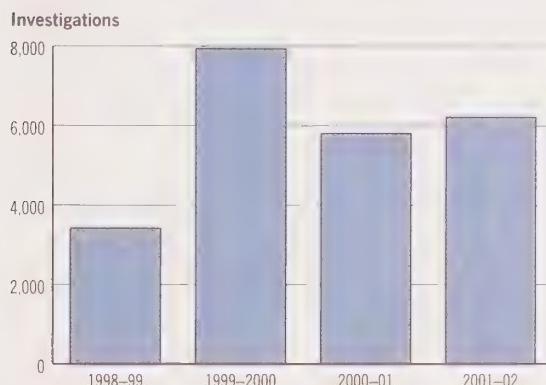
HRDC's response. HRDC agrees that reporting should be clear and accurate. It has already started to review this reporting to ensure that it provides information as clearly as possible.

Investigating fraud**A risk-based approach to investigation and control is needed**

1.79 We expected that HRDC would link its fraud investigations to the risks associated with the issuing of the SIN and with its use by the federal government.

1.80 Instead, we found that HRDC has completed no risk-based analysis of the SIN program. Nor has it attempted to determine the extent and nature of SIN-related fraud. Its level of effort is based mainly on the number of SINs issued, the resources it has available, and a number of specific risk indicators. Although the number of SIN investigations has increased since 1998 (Exhibit 1.5), it is not clear that this effort was focussed on high-risk areas. Furthermore, since current levels of effort reflect the supplementary funding the Department received, SIN investigations may not remain at this level after this funding ends in 2002–03.

Exhibit 1.5 Completed investigations of suspected SIN fraud



Source: Human Resources Development Canada

1.81 In 1998, we recommended that HRDC redesign its performance indicators for SIN investigations to recognize their importance not only to the Employment Insurance program but also to other federal programs and provincial, territorial, and municipal programs. In 2001–02, HRDC began the setting of goals and the routine tracking of the number of SIN investigations carried out by its local offices. This performance indicator does not capture information on the quality and results of those investigations. However, since 1998 the SIN Investigation Service has reviewed most SIN investigations for completeness.

1.82 Recommendation. Human Resources Development Canada should adopt a more comprehensive risk-based approach to investigating SIN-related fraud.

HRDC's response. The Department has implemented the SIN Application Review Program (SARP), a risk-based program that guides investigation priorities related to SIN applications, which forms part of HRDC's approach to risk management. The Department will determine if SARP can be

expanded to guide priority-setting for other SIN investigations. Any risk-based approach will recognize that the Department needs to work closely with federal and provincial government officials, police services, employers, and other partners in combating SIN-related fraud and abuse.

Investigators lack structured training and adequate tools

1.83 In this audit, we expected to find that SIN investigators were receiving more training and support than in 1998. However, we found that there is still no formal training program. While they now have access to some computer-based training, investigators informed us that they would benefit from classroom instruction.

1.84 We also expected that SIN investigators would have access to adequate tools. We found that various tools are being made available: on-line access to certain databases, a guide containing pictures and descriptions of security features of authentic documents, and ultraviolet lamps to help identify fraudulent documents. However, as we found with front-line staff, investigators in many of the local offices we visited had not yet received the lamps and some had not received training in the use of the tools.

1.85 Recommendation. Human Resources Development Canada should ensure that investigators have the proper training and tools.

HRDC's response. HRDC agrees with the recommendation. The Department has developed an integrated course on Social Insurance Number investigation and identity fraud. The first session of the course will take place in the fall of 2002. All HRDC offices have now received ultraviolet lamps and the necessary instructions and training to help identify fraudulent documents through their use. This is matched by a regularly-updated guide to identity documents. The decision that HRDC will no longer accept certified photocopies to prove identity from people applying for SINs in-person or through the mail will increase the effectiveness of these tools.

Conclusion

1.86 The SIN is used widely outside the federal government as well as inside. It is one of a handful of personal identifiers that a person needs to function in Canadian society. It is used in several major federal benefits programs and in transactions with the Canada Customs and Revenue Agency. It is used often, but not always, by provinces, cities, and the financial services industry. It also appears that many businesses use it when offering credit to their clients. All of these uses give the SIN its value.

1.87 We began our audit expecting to find that the issues we raised in 1998 had been substantially addressed. Instead, we have concluded that HRDC has not done enough to safeguard and strengthen the integrity of the SIN.

1.88 Ensuring that SINs are issued to only those eligible is still problematic. Most of the application-processing weaknesses we found in 1998 have not been addressed. In our view, HRDC's policies and practices do not meet, in

important respects, the intent of the *Employment Insurance Act* and Regulations. We are concerned that for the majority of the SINs issued since 1998, the applicant's identity and citizenship status were not checked properly because a single piece of identification is usually insufficient to check both.

1.89 The integrity of the Social Insurance Register also remains a persistent problem. While HRDC made a number of improvements after 1998, there are still several weaknesses that it has not dealt with adequately. The number of usable SINs for people over 20 years old exceeds the census figure by 5 million. Although HRDC has designated millions of SINs as dormant, they could still be used to access federal benefits programs without triggering an investigation. Finally, there are still 8.3 million records in the Social Insurance Register that have never been cross-checked with other departments or supported by any proof-of-identity program. These uncertified SINs are also usable.

1.90 Since 1998 the Department has stepped up the number of SIN-related fraud investigations. However, there is little basis for judging whether the new level of effort is adequate—because there is little information on the extent of SIN-related fraud. The Department has not done a comprehensive risk analysis as a basis for its investigation efforts.

HRDC's comments. HRDC is committed to fulfilling its role as part of the overall Government of Canada response to Canadians' heightened awareness of security issues. The Department recognizes the priority of addressing the security issues related to personal identification documents and has responded with actions that will strengthen its ongoing efforts to

- ensure appropriate issuance of SINs;
- improve the integrity of the key SIN database, the Social Insurance Register;
- vigorously pursue SIN fraud and abuse; and
- raise awareness that the Social Insurance Number (SIN) is authorized only as a file identifier for specific Government of Canada-related purposes and how to protect against SIN misuse.

HRDC is dedicated to diligent stewardship of the Social Insurance Number. Since 1998 the Department has taken steps to improve the management of the SIN and the integrity of the Social Insurance Register (SIR). The Department agrees with the recommendations in this chapter, and as indicated in its responses, is taking immediate action to implement a number of key initiatives. These actions will improve the policies, processes, and practices of its management and administration of the Social Insurance Number. We will continue to work with the Office of the Auditor General and other partners on further initiatives that fully meet the recommendations of the report and the expectations of Canadians.

About the Audit

Objective

The objective of our audit was to determine whether the federal government was safeguarding and strengthening the integrity of the Social Insurance Number (SIN). We assessed the extent of the government's action to address the key concerns we raised in our 1998 audit and those raised by the Standing Committee on Public Accounts and the Standing Committee on Human Resources Development.

Scope

Using the problems we identified in 1998 as a baseline, we tested whether they still existed and were still significant in 2002. We looked at four issues:

- the role and importance of the SIN;
- the integrity of the information in the Social Insurance Register (SIR);
- control over the issuing of SINs and the SIN cards; and
- efforts to combat fraud.

We carried out our audit mainly at HRDC headquarters in the National Capital Region; at Bathurst and Moncton, New Brunswick; in regional and local HRDC offices; and at the Treasury Board Secretariat. We gathered additional information from the Canada Customs and Revenue Agency, Citizenship and Immigration Canada, the Office of the Privacy Commissioner, Statistics Canada and the Royal Canadian Mounted Police.

Criteria

Legislative and other authorities should provide a sound framework for safeguarding and strengthening the integrity of the SIN.

Human Resources Development Canada should be aware of how the SIN is used in the private sector and the public sector in provinces and should lead action to encourage its proper use.

The Treasury Board Secretariat should monitor departmental compliance with its policies on the use of SIN and data matching.

HRDC should make reasonable efforts to ensure that it provides new SINs and replacement cards only to eligible individuals.

HRDC should make reasonable efforts to ensure that the Social Insurance Register is accurate, complete, and secure.

Fraud detection and investigation efforts should be based on risk.

Ratings

We assessed the action of departments/agencies against our original audit recommendations (see Key Message at the beginning of the Chapter). We used the following ratings:

- **Completed.** Corrective action has been fully implemented
- **Satisfactory progress.** Progress is being made at a satisfactory pace
- **Limited progress.** Some progress is being made, but the pace or scope is not satisfactory
- **No progress.** No evidence of progress although the department or agency accepted the recommendation from the original audit
- **Rejected.** The department or agency did not accept the recommendation from the original audit
- **Unknown.** Status of progress is unknown or information is not available

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Chapter

2

Health Canada
National Health Surveillance



Health Canada

National Health Surveillance

Assistant Auditor General: Maria Barrados
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Key Message

2.1 Health Canada has made limited progress toward resolving some of the weaknesses identified in our 1999 audit. However, national surveillance is still weak; many systems still lack timely, accurate, and complete disease information; and gaps in surveillance continue. These weaknesses, taken together, compromise Health Canada's ability to anticipate, prevent, identify, respond to, monitor, and control diseases and injuries. Further, they compromise its ability to design, deliver, and evaluate public health activities.

ORIGINAL ISSUES	PROGRESS	RATING*
<p>2.2 Health Canada should provide strong leadership and address factors that are compromising its ability to engage in national health surveillance:</p> <ul style="list-style-type: none">• Lack of federal public health legislation or a national framework to link the separate public health activities in the provinces and territories.• No agreement among the various partners on clearly defined roles and responsibilities in the areas of data collection and dissemination and responding to public health threats.	<p>Health Canada is taking a greater leadership role in national health surveillance:</p> <ul style="list-style-type: none">• It has made progress in establishing a national framework for health surveillance. This framework allows for greater collaboration among the partners responsible for health surveillance. We are concerned that there are still only a few agreements on data sharing between Health Canada and the provinces and territories, and no agreement on common standards and nationally reportable diseases.	<p>LIMITED PROGRESS</p>
<p>2.3 Health Canada, in collaboration with the provinces and territories, should improve the timeliness, accuracy, and completeness of disease information.</p>	<p>Health Canada's progress in this area has been inconsistent:</p> <ul style="list-style-type: none">• Many of its surveillance systems still lack timely, accurate, and complete disease information. Exceptions include surveillance systems for enteric diseases, influenza, and AIDS.• Progress has been made on The Canadian Integrated Public Health Surveillance Project, which is intended to address these concerns. However, it still faces some challenges and will not likely be fully operational for some time.	<p>LIMITED PROGRESS</p>
<p>2.4 Health Canada, in collaboration with other organizations, should take steps to fill gaps in surveillance of chronic disease, such as diabetes and cardiovascular disease.</p>	<p>Health Canada has made significant progress in developing a national diabetes surveillance system. However, the gaps in other chronic disease surveillance continue.</p>	<p>SATISFACTORY PROGRESS</p> <p>LIMITED PROGRESS</p>

*Possible ratings are completed, satisfactory progress, limited progress, no progress, rejected, unknown. (See About the Follow-Up for an explanation of the ratings.)

NEW ISSUES

- 2.5** For the most part, diabetes and breast cancer are the only chronic diseases with a national surveillance system. Despite the recognized importance of surveillance for chronic diseases, limited resources have been allocated to this area and health surveillance information is lacking for cardiovascular disease, musculoskeletal disease, cancer (except breast cancer), chronic respiratory disease, mental illness, and injuries. Further, surveillance is also lacking for risk determinants and for impacts of interventions, screening, and treatment on health outcomes.
- 2.6** Health Canada should identify its health surveillance priorities and ensure that adequate and stable funding is available to develop and maintain the surveillance systems that it identifies as priorities.

Health Canada has responded. Health Canada has agreed to continue working on the recommendations and taking corrective actions as described in its responses, included in the chapter.

Introduction

Health surveillance: Essential for public health activities

2.7 Health surveillance is a core function of public health activities. It begins with the ongoing collection of information on disease, which is then integrated, analyzed, and interpreted. The data these activities produce are disseminated in a variety of formats to those who need the information so they can take appropriate action.

2.8 Information informs decision makers and is crucial to their making the right decisions at the right times. Information obtained through health surveillance is important for understanding the health status of a population. Authorities can use health surveillance information to identify a disease outbreak and respond to it and to prevent disease by educating the public about factors that may put health at risk (that is, risk determinants, such as lack of exercise). Further, the information can be used to monitor the incidence of disease and to help control disease by determining the most effective treatment. Health surveillance information is also needed to develop government health policies and programs, to measure the performance of government activities and evaluate their effectiveness, and finally, to assess the quality and accessibility of health care.

2.9 Provincial, territorial, and municipal governments as well as public health professionals and laboratories are closely involved in health surveillance. As primary providers of public health services, they supply Health Canada with disease information for national health surveillance. Health Canada's role is to provide leadership and support for health surveillance across the country. It is responsible for gaining the collaboration of the various partners in health surveillance, integrating the disease information it receives from them, developing the surveillance systems to analyze and interpret the information, and then disseminating the results. Other partners in health surveillance include Statistics Canada, the Canadian Institute for Health Information, the Canadian Food Inspection Agency, and several organizations outside government.

2.10 Collaboration is critical to national health surveillance, given the many partners it involves. Working together allows for timely information sharing, co-ordinated responses, and effective action.

2.11 The risks that poor health surveillance creates are very real: preventable illnesses may not be prevented, approaches to treating disease may not be as effective as they could be, and government funding may be directed at the wrong health issues. For example, in 1999 we reported on a salmonella outbreak during which the exchange of information was not as timely and collaboration not as effective as they could have been, while the illness spread.

2.12 Health Canada's Population and Public Health Branch is responsible for national health surveillance. The Branch was created in a reorganization of Health Canada in 2000. In addition to health surveillance and disease

control, the Branch is responsible for policies, programs, and systems for disease and injury prevention, health promotion, community action, and the Department's emergency preparedness and response capacity. Its responsibilities include most elements of the former Laboratory Centre for Disease Control and the former Health Promotion and Programs Branch, as well as some responsibilities of the former Health Protection Branch. Our Office reported on the Branch's population health activities (disease and injury prevention, health promotion, and community action) in December 2001.

2.13 The Branch is divided into several centres. Those mainly responsible for surveillance include the Centre for Surveillance Coordination, the Centre for Infectious Disease Prevention and Control, the Centre for Chronic Disease Prevention and Control, the Centre for Healthy Human Development, the Centre for Emergency Preparedness and Response, the National Microbiology Laboratory, and the Laboratory for Food-borne Zoonoses (diseases that animals can transmit to humans through food).

2.14 In 2001–02, the Population and Public Health Branch had a budget of \$365 million. That included \$66 million for salaries and \$13 million for benefits of 1,146 full-time staff equivalents, and \$78 million for operating expenses. It also included \$208 million for grants and contributions, most of it destined for population health activities rather than health surveillance activities.

Concerns we raised in 1999

2.15 In 1999 we examined the way Health Canada carried out national health surveillance activities and how those activities supported the other components of public health—health assessment, health promotion, disease and injury prevention, and health protection.

2.16 Our report raised a number of concerns about the Department's national health surveillance activities. We concluded that our concerns were significant and called for corrective action in several areas.

2.17 Specifically, we were concerned that there was no mechanism for assigning roles and responsibilities between Health Canada and its provincial and territorial partners. We also identified weaknesses in both the disease information forwarded to Health Canada and the Department's dissemination of surveillance information in its various forms. We noted gaps in surveillance activities in areas where surveillance systems were inadequate. Finally, we were concerned about the way Health Canada had evaluated, measured, and reported the performance of its national health surveillance activities.

Focus of the follow-up

2.18 The objective of this follow-up was to determine the progress made in addressing the observations and recommendations contained in our 1999 Report—Chapter 14, National Health Surveillance: Diseases and Injuries; and Chapter 15, Management of a Food-borne Disease Outbreak. We also

followed up on recommendations made by the Standing Committee on Public Accounts. We looked at the Department's actions and the commitments it had made in response to our audit; and we reviewed the progress it had reported to the Public Accounts Committee. In the last three years, Health Canada has undertaken a number of new initiatives related to national health surveillance, which we also reviewed. Our report presents the results of the areas that were re-audited. Further details about the follow-up's objective, scope, and criteria can be found in About the Follow-Up at the end of the chapter.

Observations and Recommendations

Improving collaboration on national health surveillance

2.19 In 1999 we noted that a survey of public health professionals at the provincial, territorial, and regional levels revealed that participants wanted Health Canada to take a more proactive role in health surveillance. They agreed that strong leadership was needed from Health Canada.

2.20 At that time, we also noted two factors that were compromising Health Canada's ability to conduct national health surveillance:

- There was neither federal public health legislation nor a national framework to link the separate public health activities of the provinces and territories.
- There was no agreement among the various partners on clearly defined roles and responsibilities for collecting and disseminating data and for responding to public health threats.

Progress in developing a national framework

2.21 Each province and territory has its own public health legislation and public health priorities, resulting in 13 separate public health systems. Making progress in this complex environment can be a challenge. Therefore, strong national leadership is needed.

2.22 In 1996, Health Canada recognized that because each province and territory has its own public health legislation, a national framework would be needed if national health surveillance were to succeed. In its response to our 1999 audit report, Health Canada noted that it was reviewing its legislation with a view to updating it so it would better support national health surveillance.

2.23 Our follow-up found that there is still no public health legislation and that the legislative review is still under way. However, Health Canada has made progress in establishing a framework for national health surveillance to ensure collaboration among the partners. It has established a number of federal/provincial/territorial committees to advise and act on issues of national health surveillance (Exhibit 2.1). These committees are a useful way to ensure that all the partners participate. The committees have set goals for themselves and are working toward them.

Exhibit 2.1 Federal/provincial/territorial committees on national health surveillance

Health Surveillance Working Group—provides a pan-Canadian forum that links the federal, provincial, and territorial governments to build a national health surveillance infostructure system. The Working Group reports to the Advisory Committee on Health Infostructure and the Conference of Deputy Ministers of Health. It has three sub-groups:

- **Communicable Disease Surveillance Sub-Group**—to provide leadership and develop a strategy for the co-ordination and integration of communicable disease surveillance systems in Canada.
- **Chronic Non-Communicable Disease Infostructure Sub-Group**—to provide leadership and develop a strategy for the co-ordination and integration of chronic disease surveillance systems in Canada.
- **Injury Surveillance Sub-Group**—to provide advice and recommendations to Health Canada, federal/provincial/territorial stakeholder groups, and other organizations that maintain injury information systems and to support the effort to build and maintain a national injury surveillance infostructure for Canada.

Canadian Public Health Laboratory Forum—to provide leadership in the public health laboratory functions and provide advice on issues related to delivery of services by public health laboratories.

National Health Surveillance Infostructure Project—to develop infostructure systems to address issues and gaps related to national health surveillance.

Canadian Integrated Public Health Surveillance Project Collaborative—to lead in defining, developing, and promoting the Canadian Integrated Public Health Surveillance Project.

2.24 As part of its reorganization in 2000, Health Canada created the Centre for Surveillance Coordination. Its function is to provide leadership on co-ordination issues related to national health surveillance and to support the federal/provincial/territorial committees by carrying out specific tasks for them.

An established approach to national health surveillance is still many years away

2.25 To advance a national framework, the Health Surveillance Working Group has agreed on an approach for improving national health surveillance. For example, it has agreed that developing a national health surveillance “infostructure” system should be a goal of the partners. Subgroups are working to develop specific approaches to improving surveillance systems for communicable disease, chronic disease, and injury. They are identifying gaps in surveillance systems, such as the lack of standards for data, and are developing plans to address these gaps.

2.26 These are comprehensive approaches that the committees believe will address many of the weaknesses in national health surveillance. We are concerned, however, that Health Canada has set no specific timelines for implementing them and so we do not know when the Department expects to have the approaches in place. We were informed that given their comprehensiveness, it will likely take several to many years.

2.27 Also of concern is that these approaches are being developed largely independent of current surveillance activities. Rather than incremental improvements to current surveillance activities, they involve comprehensive change. In the meantime, many of the same weaknesses and gaps continue in national health surveillance as we observed in 1999.

Lack of agreement on roles and responsibilities

2.28 Clearly defined and agreed-on roles and responsibilities are a key element of successful national health surveillance. They are particularly important in the areas of collecting and disseminating data and responding to public health threats.

2.29 Lack of agreement on data sharing between Health Canada and the provinces and territories. Disease information is the property of the provinces and territories. To ensure that this information is shared appropriately and that the *Privacy Act* is not violated, the details of data sharing need to be outlined clearly in written agreements. Agreements on data collection need to cover such details as how the data will be used, who owns the data, what standards will be followed, and how privacy and confidentiality will be protected. Agreements on data dissemination need to cover such details as what information can be published and who can receive it. Finally, each agreement should outline the consequences of not respecting it.

2.30 At present, only a few agreements on data sharing exist (for example, on HIV/AIDS), and no generic agreement has been developed to ensure that all important details are covered. Since much of Health Canada's disease information comes from other partners, any agreements would need to clearly outline the responsibilities of all partners in the sharing of that information.

2.31 Health Canada slow to develop common standards for data to be shared. We recommended in 1999 that Health Canada establish common standards and protocols for classifying, collecting, and reporting data on communicable diseases.

2.32 Common or uniform standards and protocols are critical to ensuring that disease information is consistent. Consistency is important because national health surveillance involves integrating information so it can be analyzed on a national basis. Our follow-up found only limited progress on the development of common standards. The Communicable Disease Surveillance Sub-Group has begun developing standards for nationally reportable diseases, immunization information, and vaccine-associated adverse events (bad reactions to a vaccine). Progress has been made on the development of standards for data elements and the core data set (the set of data elements that are common to all diseases—for example, gender, and date of onset of illness). However, only very limited progress has been made on elaborating disease-specific data sets (for example, defining the symptoms of a specific disease) and laboratory standards (such as which lab test to use).

2.33 Once standards have been developed, agreement on them must be reached. We found that there is no national agreement on a mechanism for

maintaining or approving standards on behalf of all the partners. Without this mechanism, Health Canada has no way of ensuring that common standards are respected.

2.34 Still no formal agreement on which diseases should be reported nationally. In 1999 we noted that there was no formal agreement on which communicable diseases would be reportable (notifiable) to Health Canada (those of particular concern, such as tuberculosis and rabies). Nor was there agreement on which of several emerging diseases should be added to the list.

2.35 Our follow-up found that there is still no formal agreement requiring provinces and territories to accept or respect the list of nationally reportable diseases. However, informal agreement exists on a list of reportable diseases. The list was updated in 2000, and work is under way to update it again to include several bioterrorist agents, such as smallpox and anthrax.

2.36 Progress made in agreeing on a co-ordinated response to public health threats. Our 1999 report observed that Health Canada had not defined clearly who was responsible for doing what in the event of an emergency public health threat—for example, controlling diseases at ports of entry, managing outbreaks of food-borne disease, or dealing with an influenza pandemic.

2.37 We found that a number of important improvements in this area have been made over the last three years or are nearing completion. At this writing, a memorandum of understanding (MOU) on controlling diseases at ports of entry was soon to be signed by Health Canada and the Canada Customs and Revenue Agency. This MOU would provide for training front-line customs officers to handle situations that potentially involve the importation of illness. Health Canada and the Canadian Food Inspection Agency have signed a Food-borne Illness Outbreak Response Protocol and an MOU; at this writing, the provincial and territorial governments were being consulted in the hope that they would sign the agreements, too. To prepare for the possibility of an influenza pandemic, Health Canada has contracted privately with a company to ensure that there is an infrastructure to provide enough vaccine to make Canada self-sufficient within the next few years. The Department is negotiating a new MOU with provincial and territorial governments that outlines clearly their roles and responsibilities in the event of an influenza pandemic. The MOU will replace an outdated working agreement.

2.38 In summary, Health Canada has made progress on developing a framework for national health surveillance. However, it has made only limited progress on resolving weaknesses and gaps in national health surveillance activities. For the most part, there is still no agreement on important matters such as data sharing, common standards, and nationally reportable diseases. Strong leadership is needed to ensure that all partners work together to advance these initiatives without delay.

2.39 Recommendation. Health Canada should work with the provinces and territories to set specific timelines for implementing a national approach to health surveillance that will ensure that weaknesses and gaps in health surveillance are remedied.

Health Canada's response. A national approach to health surveillance is set out in the Canadian Health Infrastructure Health Surveillance Tactical Plan. Health Canada and the provinces and territories are supportive of the directions set out in this Plan. At the first opportunity, Health Canada will discuss with the provinces and territories the setting of time lines under the Plan.

2.40 Recommendation. Health Canada should work with provinces and territories to obtain agreement on the sharing of disease information, including agreement on data collection, data dissemination, data standards, and the list of diseases that should be reported nationally. Further, it should work with the provinces and territories to create a mechanism for maintaining and accepting data standards.

Health Canada's response. Health Canada will continue its work with the provinces and territories to obtain further agreements on the sharing of disease information, including agreement on data collection, data dissemination, data standards, and the list of diseases that should be reported nationally. Health Canada will also continue its work with the provinces and territories to create a mechanism for maintaining and accepting data standards.

Priority setting and business planning

2.41 In 1999–2000, Health Canada prepared a draft business plan for its health surveillance activities (at that time delivered by the Laboratory Centre for Disease Control). The development of this plan was a comprehensive process and included consultation with leading medical and technical public health professionals. Out of this process, Health Canada set its priorities. Although this plan was never finalized, it was presented to the Deputy Minister of Health Canada, the federal/provincial/territorial Public Health Working Group, and the Prime Minister's Office.

2.42 Shortly thereafter, in 2000, Health Canada reorganized. The Population and Public Health Branch (which then became responsible for health surveillance) began a new priority-setting process. Our Office reported on this process in our December 2001 Report, Chapter 9. In that report, we noted that first steps had been taken to set priorities, including a program review exercise. During our follow-up, we determined that Health Canada had never completed that exercise.

2.43 This means that the Department has still not formally established priorities among its health surveillance activities.

Weaknesses in existing disease surveillance systems

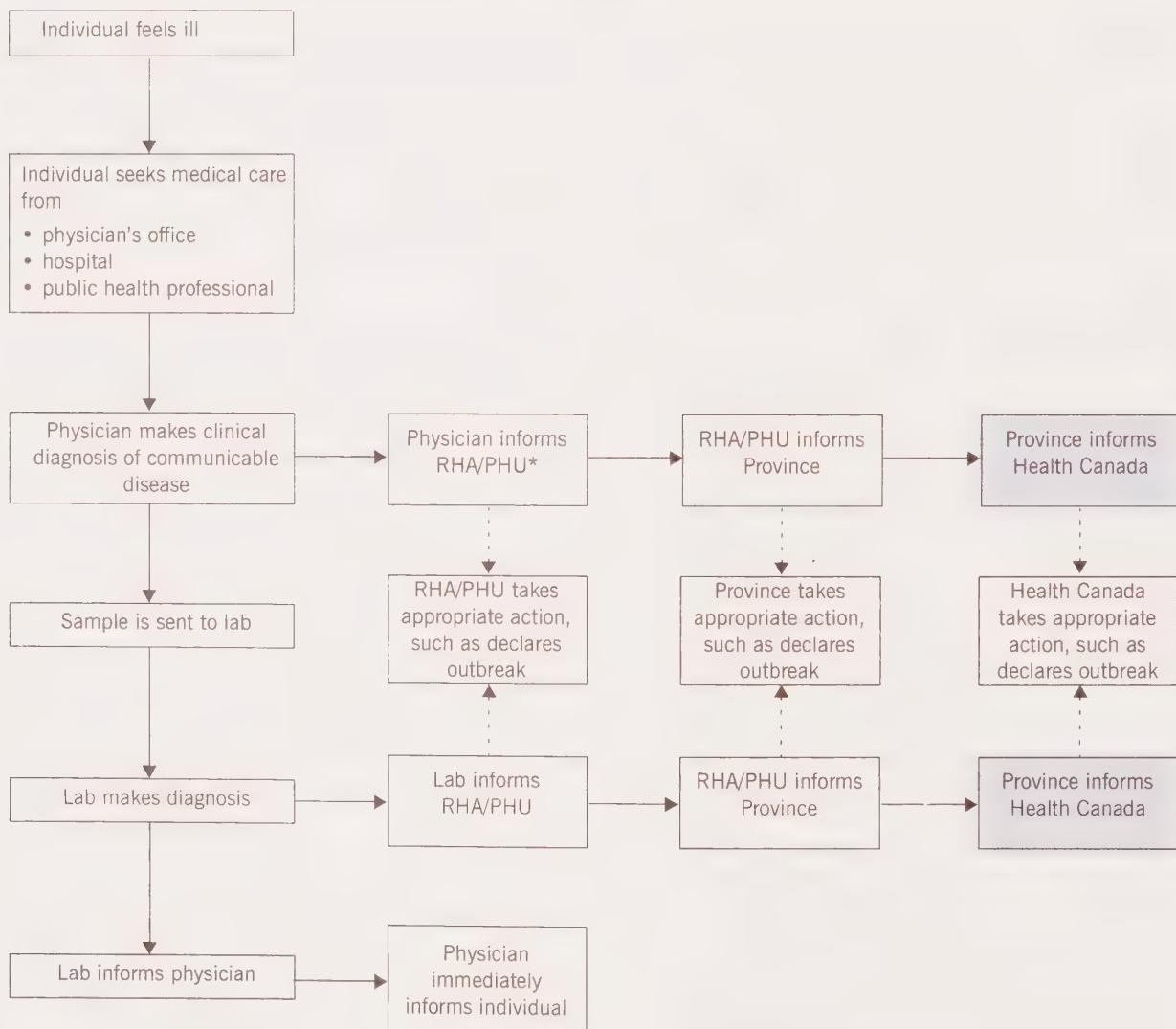
2.44 Disease surveillance systems are tools that enable Health Canada to track and forecast diseases and injuries, risk determinants, and health outcomes. Such systems entail the ongoing collection of disease information; the integration, analysis, and interpretation of that information to create

surveillance products; and the dissemination of those products to governments and public health professionals. Surveillance products can range from data such as the national incidence of a disease in a given week to a comprehensive annual report that includes incidence, mortality, risk determinants, and health care costs for a particular disease.

Communicable disease surveillance: Improvement has been inconsistent

2.45 Information on communicable (infectious) diseases comes from a number of sources, including physicians, hospitals, public health workers in regional health authorities (RHA) or public health units (PHU), and public and private laboratories. Exhibit 2.2 illustrates how information should flow to Health Canada.

Exhibit 2.2 How information on communicable disease should reach Health Canada



*RHA—Regional health authorities
PHU—Public health units

2.46 Because of the number of sources of disease information (which are all outside Health Canada) and the number of transfers of that information before it reaches Health Canada, it is a challenge for the Department to determine that the information is timely, accurate, and complete. Any breakdown in the flow of information affects the information Health Canada receives, which in turn affects its ability to take action.

2.47 Health Canada also needs to ensure that the surveillance products it disseminates are timely and contain accurate and complete information if they are to be of value. Any deficiencies in the information it receives will severely impair the effectiveness of its surveillance products.

2.48 In 1999 we reviewed a number of surveillance systems for specific communicable diseases. We raised several concerns about the timeliness and quality of communicable disease information collected by Health Canada and disseminated as surveillance products. The concerns we had about four of these systems—the Notifiable Diseases Reporting System and the AIDS, influenza, and enteric diseases systems—are summarized in Exhibit 2.3.

2.49 Since 1999, the AIDS, influenza, and enteric diseases systems have received additional funding, directed by the Treasury Board. Our 2002 follow-up of these systems found that Health Canada has improved them. The Notifiable Diseases Reporting System did not receive additional funding. We found that improvements to this system were limited. In all four systems we found more timely dissemination of surveillance products, although the

Exhibit 2.3 Progress in surveillance of communicable diseases

Surveillance system	Our observations in 1999	Follow-up observations in 2002
Notifiable Diseases Reporting System	<ul style="list-style-type: none"> • Underreporting by physicians • Delays in receiving data • Data received from provinces with different frequency, in different formats 	<ul style="list-style-type: none"> • Limited improvement since 1999 • Monthly reporting about four months behind (some provinces missing); quarterly reporting of preliminary data; annual report for 1999 the most recent
AIDS	<ul style="list-style-type: none"> • Underreporting by physicians • Delays in receiving data • Data incomplete • Data not sent by all provinces • Timely dissemination 	<ul style="list-style-type: none"> • Improvement: field surveillance officers in provinces and some formal data-sharing agreements • Annual report for 2001 the most recent
Influenza	<ul style="list-style-type: none"> • Sentinel physician reporting incomplete • Dissemination problematic 	<ul style="list-style-type: none"> • Improvement in four reporting systems—sentinel physician; laboratory; provincial activity; and international • Weekly reporting, available the following week
Enteric (gastro-intestinal) diseases	<ul style="list-style-type: none"> • Delays in receiving data 	<ul style="list-style-type: none"> • Improvement in three reporting systems—laboratory; outbreak; genetic fingerprint • Weekly laboratory reporting, available the following week; real-time reporting available for outbreak and genetic fingerprint

quality of the products is still limited by the quality of the disease information on which they are based. The progress we found in these four systems is also summarized in Exhibit 2.3.

2.50 Exhibit 2.4 describes two other surveillance systems we reviewed—the disease-specific surveillance systems for the incidence and outbreak of meningococcal infection and for the incidence of vaccine-associated adverse events. The exhibit also discusses our concerns about the timeliness and quality of the disease information collected.

2.51 Health Canada's challenges in collecting communicable disease information continue. They include

- **Timeliness.** Data sources submit disease information according to their own schedules—for example, immediately, daily, weekly, or monthly.
- **Accuracy.** Data sources submit disease information in their own ways—for example, some give the date of onset as the date of diagnosis and others give the date of first symptom.
- **Completeness.** Data sources may submit no information or only partial information.

Steps to improve communicable disease information: The Canadian Integrated Public Health Surveillance Project

2.52 Health Canada recognizes the weaknesses in the disease information it collects, and it has developed the Canadian Integrated Public Health Surveillance Project to address some of them. This project comprises a group of integrated computer and database applications that will allow public health professionals in the provinces to collect and forward information on communicable diseases to Health Canada. By standardizing reporting, it will make disease information more

- timely, with case-by-case electronic and real-time data;
- accurate, with common modules and standards; and
- complete, with the potential to be used at all public health offices and laboratories.

2.53 The project is managed by a collaborative group of federal and provincial representatives. It is really two information management systems. The first, the Public Health Information System, manages epidemiological/clinical data. The second, the Laboratory Data Management System, manages laboratory data. Health Canada has made satisfactory progress on this project. The Public Health Information System is operational in British Columbia and is soon to be piloted in several regional health authorities or public health units in seven provinces and territories. The Laboratory Data Management System is being used in two federal laboratories.

2.54 This project has the potential to improve the quality of surveillance information. Our concerns remain, however, because full implementation is still some time away, the disease information in current systems is still inadequate, and limited effort has been made to find an interim solution. We have identified several matters that need to be resolved before these systems

can succeed. First, compatibility of provincial systems with the national system must be assured. Second, data standards have yet to be agreed on. Third, obtaining agreement on data sharing, data ownership, and privacy protection remains a challenge. Finally, the project will not fully address concerns about the completeness of the data. The impact of the two systems on the timeliness and quality of communicable disease information may not be evident for some time.

Exhibit 2.4 Meningococcal disease and vaccine-associated adverse events

Meningococcal disease is serious and sometimes fatal. About one in ten persons who develop the disease may die and one in ten who recover will suffer some long-term effects, such as deafness. The number of cases of meningococcal disease goes up and down in regular cycles, with local and regional outbreaks occurring about once every 10 to 15 years. Although the disease can occur at any age, the highest risk is among children under a year old, with the next-highest risk among teenagers aged 15 to 19 years.

There are effective antibiotics for the treatment of meningococcal disease. Vaccines against several meningococci types are available and may be used in an outbreak situation to provide protection.

Meningococcal disease is a reportable disease and is therefore reported through the Notifiable Disease Reporting System. Health Canada also has an enhanced (disease-specific) surveillance system for meningococcal disease. Because the disease is preventable with a vaccine, any adverse events (bad reactions) following vaccination should be reported through the surveillance system for vaccine-associated adverse events.

The enhanced system is intended to receive case-by-case disease information (confirmed cases, with case information linked to lab data) and outbreak information electronically from the provinces on a real-time basis. However, reporting by the provinces is not always timely and complete. Standards for the required information have not been developed. Case information for meningococcal disease is sometimes submitted independent of the lab data. Matching at the federal level can be difficult, and unmatched data have less value. During an outbreak, the quality of data generally improves as provinces focus more on meningococcal disease. However, during an outbreak the data often arrive through informal channels, such as emergency phone calls or e-mails, rather than the formal surveillance system. As a result, the communication of timely, accurate, and complete information on meningococcal disease is a concern. The most recent report on meningococcal disease was published in 2000 and relied on data from 1997 and 1998.

One means of dealing with a meningococcal outbreak is to vaccinate vulnerable population groups. With every vaccination there is a risk of an adverse event. Health Canada has two surveillance systems that provide some information on vaccine-associated adverse events. The systems are of limited value in collecting timely, accurate, and complete information on vaccine-associated adverse events from meningococcal vaccination. The first is a network of 12 pediatric hospitals that provide information on patients who may be suffering from a serious reaction to the vaccine. The system's value is limited because it would not capture an adverse event unless the individual went to a pediatric hospital, and people in one of the most vulnerable age groups—15 to 19—are not likely to be patients in a pediatric hospital. The second system collects information from public health professionals on a standard form; it is a voluntary system. Health Canada recognizes the limitations: a voluntary system is unlikely to provide complete information. However, it believes that the more serious the adverse event, the more likely it is to be reported. The last annual report on adverse events was published in 1997.

2.55 In summary, Health Canada has made progress in enhancing the surveillance systems for which it received directed funding from the Treasury Board. It has made only limited progress on the others. The Canadian Integrated Public Health Surveillance Project has the potential to address some weaknesses, but it still faces some challenges. In the meantime, current disease information remains inadequate.

2.56 Recommendation. Health Canada should enhance its current surveillance of communicable diseases while it continues to advance the Canadian Integrated Public Health Surveillance Project.

Health Canada's response. Health Canada will continue to enhance current surveillance of communicable diseases, with particular emphasis on specific diseases such as HIV, enteric diseases, sexually transmitted infections, blood-borne pathogens, and vaccine-preventable diseases. The Department will continue to advance the Canadian Integrated Public Health Surveillance Project.

Chronic disease surveillance: Limited progress

2.57 Chronic disease information is collected from a number of sources, including disease registries, such as those for cancer; administrative data such as hospital records and provincial billing records for health services; morbidity and mortality data maintained by Statistics Canada; and health surveys such as the National Population Health Survey. This information is not sent automatically to Health Canada, although it is available to the Department for its surveillance activities.

2.58 Once the information is collected, Health Canada has a number of surveillance systems that integrate, analyze, and interpret disease information and create and disseminate surveillance products based on that information.

2.59 In 1999 we noted problems in the disease information collected for two of several cancer surveillance systems, the Childhood Cancer Treatment and Outcome Surveillance System and the National Enhanced Cancer Surveillance System. The first system is part of a broader surveillance system, the Canadian Childhood Cancer Surveillance and Control Program. We found that the Treatment and Outcome system had incomplete data on youths between 15 and 19 years of age and that no results of any analysis had been reported. Our follow-up determined that no progress had been made toward filling the information gaps, but a report on the results of its analysis of the data collected from the Childhood Cancer Treatment and Outcome Surveillance System is scheduled to be published. Also of concern is the very limited activity in surveillance for the late effects, etiology investigation, and tissue bank systems—the other systems in the Childhood Cancer Program.

2.60 In 1999, it was determined that there were gaps in the environmental data collected by National Enhanced Cancer Surveillance System. Our 2002 follow-up found that the information gaps had not yet been filled and that more current information has not been collected. Health Canada has published a number of reports on the results of its analysis.

Gaps in national health surveillance activities

2.61 Recommendation. Health Canada should collect the disease information needed to provide a complete and timely picture of cancer in Canada.

Health Canada's response. Health Canada's current picture of cancer in Canada includes cancer incidence and mortality data. Health Canada needs more concrete information on risk factors, severity at the time of diagnosis, and treatment data. The Department will continue its work with the provinces and territories to get such concrete information.

2.62 Most of Health Canada's existing disease surveillance systems focus on the incidence of disease. However, there are opportunities for collecting and analyzing information on disease beyond its incidence.

2.63 As an individual moves from health to disease to health outcome, that individual will interact with the health care system many times (Exhibit 2.5). Each time, disease information can be collected for surveillance activities (Exhibit 2.6).

2.64 Gaps in surveillance exist because there may be no surveillance system at all or because an existing surveillance system may focus largely on the incidence of disease and not on other important areas. Those areas can include risk determinants and the impacts of interventions, screening, and treatment on health outcomes.

2.65 In its 1999–2000 draft business plan, Health Canada recognized a number of gaps in surveillance, particularly surveillance of chronic diseases. It also demonstrated the significance of chronic diseases to the health of Canadians, as measured by the projected cost of these diseases for 1998 (Exhibit 2.7).

2.66 In 1999 we noted that national surveillance activity for cardiovascular disease was inadequate—specifically, surveillance of incidence, risk determinants, intervention, and treatment. Our report acknowledged that Health Canada was working to develop a national system that it expected would be operating fully in 2003. We also noted a gap in national surveillance of diabetes, but a national system was to be operating fully in 2000.

2.67 Our follow-up found that there are still some significant gaps in surveillance:

- Cardiovascular disease surveillance. Health Canada has done little work on developing a national system for surveillance of cardiovascular disease, a disease projected to cost Canadians \$21 billion in 1998. During our 1999 audit, work had begun on developing a Canadian Heart Disease and Stroke Surveillance System Network. The Network made some initial progress but after a business plan was developed, the funding for the Network ended. Health Canada's present activities in this area are directed largely at publishing a biannual report on heart disease and stroke that provides only very limited information on the disease. The Chronic Non-Communicable Disease Infostructure Sub-Group is currently contributing to a study on the feasibility of extending the diabetes surveillance system to include cardiovascular disease.

Exhibit 2.5 Public health services and disease continuum

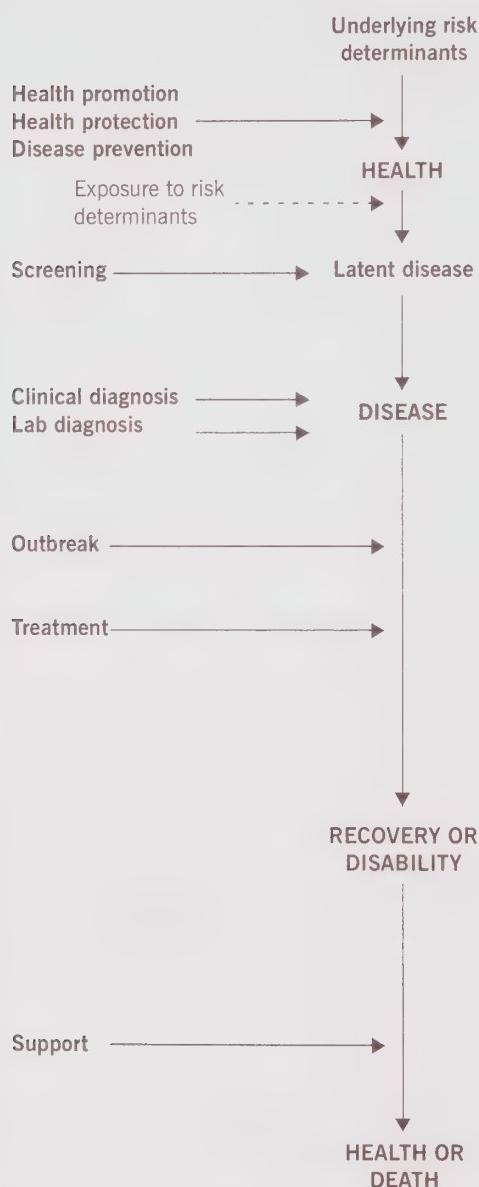


Exhibit 2.6 Opportunities in the delivery of public health services for surveillance

Opportunities exist in the delivery of health care for surveillance systems to monitor the following:

- Risk determinants (behaviour, environment, age, gender, social support, etc.)—to identify the factors that influence disease.
- Health promotion, health protection, disease prevention—to evaluate the effectiveness of these interventions.
- Screening—to evaluate the effectiveness and coverage of screening activities.
- Incidence—to quantify how many new cases of a particular disease have been identified in Canadians during a given period.
- Prevalence—to quantify the total number of cases of a particular disease in the Canadian population during a given period.
- Outbreak—to identify an outbreak of a communicable disease and to plan a response to the outbreak.
- Treatment—to evaluate the effectiveness of a treatment and the economic burden of the treatment, for example,
 - Drug—to evaluate the effectiveness of drugs and adverse reactions to drugs, and to identify drug resistance
 - Surgical—to evaluate the effectiveness of surgical practices and to develop best practices
 - Vaccination—to evaluate the effectiveness of vaccination strategies, longevity of protection, and adverse reactions to vaccines.
 - Rehabilitation—to evaluate the effectiveness of rehabilitation options and to develop best practices.
- Support (hospital, home care, and palliative care)—to evaluate the effectiveness of support and its economic burden and to measure accessibility to health care.
- Health—to measure the health of Canadians.

Exhibit 2.7 Projected costs of selected diseases for 1998

Diagnostic category	(\$ billions)		
	Direct cost	Indirect cost	Total cost
Cardiovascular (i.e., heart disease and stroke)	7.3	13.7	21
Musculoskeletal (i.e., arthritis)	2.5	15.5	18
Injuries	3.1	10.9	14
Cancer	3.2	9.8	13
Chronic Respiratory (i.e., asthma)	3.7	8.3	12
Mental Illness	5.1	2.9	8

Source: Health Canada Business Plan, 1999–2000

- **Diabetes surveillance.** Health Canada has made significant progress on developing a national diabetes surveillance system (Exhibit 2.8).
- **Other important chronic diseases.** There are still a number of key health issues for which surveillance is inadequate. These include chronic diseases such as musculoskeletal disease (for example, arthritis), cancer (except breast cancer), chronic respiratory disease (for example, asthma), and mental illness (for example, depression). These four diseases had projected costs of about \$50 billion in 1998.
- **Risk determinant and health outcome surveillance.** There are many gaps in the surveillance of risk determinants and the impacts of interventions, screening, and treatment on health outcomes. For example, while the development of a surveillance system for breast cancer screening is progressing, no surveillance system currently collects information on patient outcomes after various breast cancer treatments. As a result, physicians and breast cancer patients have only limited information on treatment options (Exhibit 2.9). Similarly, the diabetes surveillance system will be able to provide information on the incidence, prevalence, and associated health problems of diabetes but not on risk determinants, intervention, treatment, or incidence in children under 19 years of age. An inventory of opportunities for surveillance systems for notifiable diseases, AIDS, cardiovascular disease, and cancer (excluding breast cancer) is included in Exhibit 2.10.

Exhibit 2.8 National surveillance system for diabetes

Diabetes is the seventh leading cause of death in Canada. It is estimated that 33 percent of persons with diabetes do not know they have it. If left untreated or managed improperly, diabetes can slowly damage the body. This creates complications such as heart disease, blindness, and kidney disease. It is also estimated that 90 percent of all persons with diabetes suffer from type II diabetes, which can be prevented or delayed by modifying two known risk determinants—obesity and physical inactivity.

In 1999, the federal government developed the Canadian Diabetes Strategy, with four main components. One component was the development of a national diabetes surveillance system, and it has seen significant progress since then. All 13 provinces and territories are signatories to a memorandum of understanding that outlines the participation and responsibilities of all partners.

The data for the system are administrative data, such as physicians' billings and hospital discharges. Each year, Health Canada receives these data from the provinces, separated between cases that might indicate diabetes and cases that do not. The data are used to determine the prevalence of diabetes.

Health Canada intends to develop mathematical models that can be applied to the data to correct for false positives. This would allow it to estimate the incidence of the disease.

In the future, the Department will be able to analyze administrative data to identify other health problems (complications) associated with diabetes.

So far, data on prevalence, incidence, and complications from 1995 to 2000 have been collected from nine provinces and territories. The information on prevalence is being analyzed and the Department plans to issue its first annual report in 2002.

Exhibit 2.9 Surveillance system for breast cancer treatment

Breast cancer is the most common cancer among women in Canada. It is diagnosed in more than 19,000 Canadians every year. A study by the National Cancer Institute of Canada suggested that the direct costs of breast cancer totalled \$7 billion in 1990. That is just one third of the estimated indirect costs.

In 1993 the Canadian Breast Cancer Initiative was launched, with a financial commitment of \$25 million for five years. In 1998 the program was renewed to 2003, with total funding of \$35 million or \$7 million annually. The goal of the initiative is to encourage and support research related to the prevention, treatment, and control of breast cancer. The initiative has five components, one of which is surveillance and monitoring of breast cancer. This component is divided into three sub-components: screening surveillance; risk factor surveillance; and treatment and palliative care surveillance.

It appears that most effort has been directed at surveillance of breast cancer screening. A system for collecting data from organized screening programs already exists and is soon to be extended to include non-organized screening programs. Health Canada has undertaken only limited activities to develop a breast cancer treatment surveillance system; at present there is no such system.

Surveillance information on breast cancer treatment would be of great value to physicians and breast cancer patients. For example, long-term effects of treatment could be monitored and used to assist physicians and patients in decision making. This represents a missed opportunity.

- **Injury surveillance.** The national system for surveillance of injuries to Canadians, which had an estimated annual cost of \$14 billion in 1998, is incomplete. At present, injury surveillance is largely limited to children. The Injury Surveillance Sub-Group has prepared an inventory of data sources and surveillance activities on injuries. It has also begun an injury surveillance pilot project with the British Columbia Injury Research and Prevention Unit, which captures injury data for all ages directly from 10 hospital emergency departments in British Columbia.

2.68 In summary, a significant number of gaps remain in the surveillance of chronic diseases and injuries. Health Canada's efforts are limited largely to surveillance of diabetes and breast cancer. Consequently, it has only limited surveillance information on many of the leading causes of death in Canada.

2.69 Recommendation. Health Canada, in collaboration with other organizations, should take steps to fill identified gaps in surveillance by ensuring the timely development of national surveillance systems for chronic diseases.

Health Canada's response. Health Canada has surveillance systems for chronic disease at various levels of maturity and, in collaboration with provinces and territories and others, will continue its work toward addressing specific gaps such as cardiovascular disease, chronic respiratory disease, and musculoskeletal disease.

Exhibit 2.10 Opportunities for surveillance systems—Four diseases

Surveillance opportunity	Notifiable diseases	AIDS	Cardio-vascular	Cancer (system excludes breast cancer)
Risk determinants	N/A	●	●	●
Health promotion, health protection, disease prevention	○	○	○	○
Screening	N/A	N/A	○	○
Incidence	●	●	○	●
Prevalence	○	●	○	●
Outbreak	●	N/A	N/A	N/A
Treatment	○	○	○	○
Support	○	○	○	○
Health	○	○	○	○

● Surveillance system exists but has weaknesses, as discussed in the chapter.

○ There is no surveillance system, or surveillance is limited.

N/A Not applicable.

Surveillance issues that need to be resolved

2.70 As we have noted, Health Canada has made limited progress on improving national health surveillance. During our follow-up we identified several factors that have impeded or prevented improvement.

2.71 Many of the factors within Health Canada's control are financial. The centres that conduct surveillance activities receive funding for salaries, operations and maintenance, and grants and contributions. This funding, which represents the centres' financial capacity to deliver programs, comes from three streams. The first stream is referred to as targeted money, funds that the Treasury Board has approved for specific initiatives, mainly within the last five years. As part of obtaining the approval, the Department agrees to achieve certain goals. The Centre for Infectious Disease Prevention and Control has received targeted funds for blood-borne pathogens, enteric diseases (gastro-intestinal illness), influenza pandemic, HIV/AIDS, and hepatitis C. The Centre for Chronic Disease Prevention and Control has received targeted funds for diabetes and breast cancer.

2.72 The second stream of funding is referred to as A-base money. It is the funding that Health Canada allocates to the centres for programs that do not have specifically targeted funding. This stream represents the only discretionary funding available to the centres.

2.73 The third stream is the annual reallocation of resources within Health Canada to offset funding pressures on the Department. This exercise, carried out by the Department's Resource Allocation Committee, is discussed in more detail in paragraph 2.81.

2.74 Funding in 2001–02 to three key centres for operations and maintenance of all their activities is outlined in Exhibit 2.11 (The funding shown includes surveillance activities as well as the other activities of the centres.)

Exhibit 2.11 Operations and maintenance funding in 2001–02 (at 1 April 2001)

Program	(\$ '000)		
	Centre for Infectious Diseases Prevention and Control	Centre for Chronic Diseases Prevention and Control	Centre for Surveillance Coordination
Targeted funds	23,500	7,900	900
A-base	3,850	1,050	300
Departmental reallocation	0	0	0
Total funding before levies	27,350	8,950	1,200
Levied amounts (deducted)	(4,200)	(1,500)	(200)
Total after levies	23,150	7,450	1,000

Lack of financial capacity to establish chronic disease surveillance systems

2.75 Health Canada's 1999–2000 draft business plan also recognized that the Department lacked the financial capacity to fill the gaps in disease surveillance. It recommended that resources be directed to

- maintain and extend infectious disease activities, where required; and
- extend the scope of activities for chronic diseases.

2.76 However, our follow-up found that the recommendations in the draft business plan had not been implemented. We were informed that financial capacity remains a concern in 2002. In 2001–02 the Centre for Chronic Disease Prevention and Control received \$5 million for diabetes (\$1 million of it for surveillance activities); \$2.6 million for breast cancer (\$0.6 million for surveillance activities); \$300,000 for biotechnology (none of it for surveillance activities); and \$1.05 million in A-base funding (\$0.6 million for surveillance activities).

2.77 The \$600,000 in A-base funding is all that is available for all chronic diseases except diabetes and breast cancer—that is, cardiovascular disease, other forms of cancer, musculoskeletal disease, chronic respiratory disease, and mental illness.

Lack of financial capacity to maintain chronic disease surveillance systems

2.78 The Childhood Cancer Treatment and Outcome Surveillance System and the National Enhanced Cancer Surveillance System both received targeted funding for their development. Once they were established, targeted funding ended and an amount to maintain the systems was included in the A-base. Over time, however, the amount in the A-base has eroded.

2.79 The Brighter Futures—Child Development Initiative, for example, targeted funds to the development of the Childhood Cancer Treatment and Outcome Surveillance System for five years. When the Child Development Initiative ended, funding of \$1 million to keep the surveillance system operating was added to the A-base. However, the A-base funding has declined consistently (Exhibit 2.12).

2.80 The Population and Public Health Branch has reported that this funding is inadequate. In 2001–02, the Branch identified this surveillance system as one of several surveillance systems that were an unfunded, high-priority project of the Centre for Chronic Disease Prevention and Control. The Branch asked the Department's Resource Allocation Committee for additional funding of \$420,000 to operate this system. However, the Centre received no additional funding and had to manage the system within its A-base resources, which we have noted totalled \$600,000 for all chronic diseases except diabetes and breast cancer.

Erosion of financial capacity

2.81 Health Canada engages each year in an internal exercise of resource reallocation, managed by its Resource Allocation Committee. The Committee collects money by charging levies to the funds allocated to each

branch of the Department. Inadequately funded activities of all the branches are identified, and those with highest priority are allocated additional funds from the money collected through the levies. The levies charged to the Population and Public Health Branch are collected from the operations and maintenance funding for each of the Branch's centres.

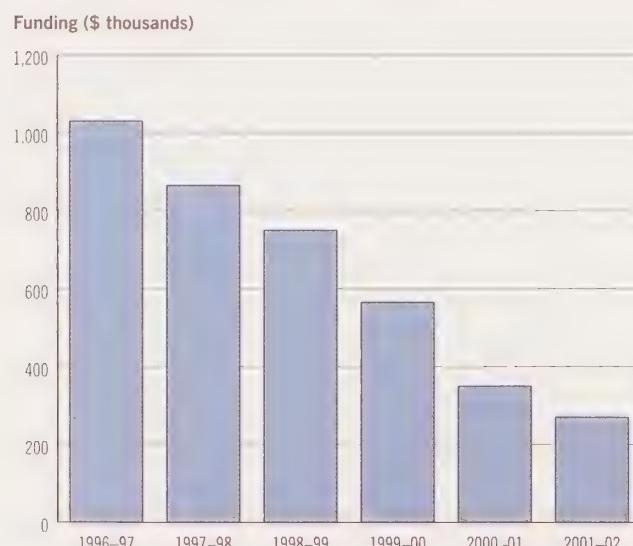
2.82 Other levies to fund various initiatives of the Department are also collected from the centres. Our analysis of resources allocated to each centre determined that the levies charged to the Branch for 2001–02, and then collected from each centre as a percentage of its operations and maintenance funding, were roughly equivalent to

- 15 percent from the Centre for Infectious Disease Prevention and Control,
- 17 percent from the Centre for Chronic Disease Prevention and Control, and
- 17 percent from the Centre for Surveillance Coordination.

The three centres paid a total of almost \$5.9 million in levies (Exhibit 2.11), taken from both the targeted funds intended for specific activities and the A-base funds, which are discretionary. The funds were reallocated to other activities within Health Canada, which means they are supporting activities that are not the ones to which the Treasury Board directed the support.

2.83 In 2001–02, the three centres also identified unfunded activities of about \$7 million. The Branch requested additional funding for these activities from the Resource Allocation Committee. However, the Committee denied the requests and provided no additional funds. The collection of levies, combined with the denial of requests for funding, has eroded the centres' ability to carry out their surveillance activities.

Exhibit 2.12 A-base funding for Childhood Cancer Treatment and Outcome Surveillance, 1996–2002



Priorities need to be established and supported with funding

2.84 A great many diseases affect Canadians; there are many opportunities for health surveillance. It is clear that not all of the information on diseases can be collected and analyzed.

2.85 It is essential that Health Canada determine its priorities for national health surveillance activities relative to the other activities in the Department. As well, priorities among the various health surveillance activities must be clearly established. This means choosing which key health issues will be surveyed—for example, outbreaks of reportable (notifiable) diseases or interventions for cardiovascular disease. Finally, it is important that Health Canada direct enough resources to those priorities to develop surveillance systems and maintain them.

2.86 As already noted, Health Canada did set priorities for health surveillance activities in 1999–2000. However, those priorities were not supported by funding. And we have already noted that more recent attempts to set priorities have not been completed.

2.87 Health Canada has made only a limited commitment of funding to the centres that conduct national health surveillance. We determined that around 86 percent of the operations and maintenance funding received by the Centre for Infectious Disease Prevention and Control is targeted funding. And 89 percent received by the Centre for Chronic Disease Prevention and Control is targeted. This means that most of the centres' activities are supported by funding directed to the centres by the Treasury Board. Of the funds the two centres receive for their activities, only 14 percent and 11 percent, respectively, come from Health Canada.

2.88 These financial capacity issues create a number of problems for program officials. Funding is variable, the A-base is eroded, and targeted funds are redirected, although the centres remain responsible for delivering adequate national health surveillance.

2.89 Recommendation. Health Canada should identify its health surveillance priorities and ensure that adequate and stable funding is available to develop and maintain the surveillance systems that it identifies as priorities.

Health Canada's response. For Health Canada, health surveillance activity is of significant importance. It is a constant and important item for analysis and evaluation at the time of the annual setting of departmental priorities, and it will remain so in the future.

Keeping Canadians safe: Food-borne disease and blood-borne pathogens

2.90 In response to blood and food crises, the Treasury Board directed specific funds to these program areas so that surveillance systems could be improved. We assessed Health Canada's progress in improving the surveillance systems for food-borne disease and blood-borne pathogens.

National surveillance of enteric diseases

2.91 Since 1999, the Department has made progress on developing systems for national surveillance of enteric diseases. Enteric diseases cause gastrointestinal illness and are usually transmitted in food and water. Health Canada has undertaken five major initiatives to improve its surveillance systems:

- **National Enteric Surveillance Program.** A system that collects and analyzes all positive laboratory samples from 10 provincial laboratories. The results are compared against a historical baseline to detect any unusual increase in the incidence of pathogens.
- **Canadian Enteric Outbreak Surveillance Centre.** Two linked Web-based applications that allow information on outbreaks to be shared in confidence among regional, provincial/territorial, and federal public health professionals on a real-time basis once they are posted on the Web.
- **PulseNet North.** A laboratory outbreak identification system that allows information on pathogens to be exchanged in real time. It is linked with the provincial labs in all provinces in Canada and with a similar system in the United States (PulseNet), allowing information sharing across North America.
- **National Studies on Acute Gastrointestinal Illness.** A collection of studies to supplement existing surveillance activities, for example, studies to determine the underreporting of gastrointestinal illness and identify the risk determinants associated with gastrointestinal illness in Canada.
- **National Enteric Surveillance Program Stakeholder Committee.** A federal/provincial/territorial committee to advise on and discuss issues related to national surveillance of enteric diseases.

2.92 The National Enteric Surveillance Program and PulseNet North have been implemented. The Canadian Enteric Outbreak Surveillance Centre finished its pilot phase and is being rolled out in Ontario in 2002. The other initiatives are still quite new but appear promising. Health Canada has also identified areas that need more work, and it plans to make the necessary improvements.

National surveillance of blood-borne pathogens

2.93 In 1996, while the Krever Commission was still finalizing its report on blood safety, the Treasury Board approved funding to strengthen Health Canada's Blood Safety Program. In 1998, after the Commission issued its report, the Treasury Board approved additional funding for the Program. A portion of the funding was to be used to develop the capacity to create a

blood surveillance system. The Department committed to have such a system in place by 2003.

2.94 Health Canada has made progress on developing a national system for the surveillance of blood-borne pathogens. It initiated the Transfusion-Transmitted Injury pilot surveillance system in 1998, modelled on the Quebec system that was already being developed. The Quebec system is based on a network of transfusion safety officers who collect data from hospitals that have a significant level of transfusion activity. The pilot started with Quebec and British Columbia; Nova Scotia and Prince Edward Island were added in 2000 and they submitted data in 2002. Ontario and Manitoba joined in 2002.

2.95 During our follow-up, however, we became aware of issues yet to be resolved that could delay the implementation of the National Transfusion-Transmitted Injury surveillance system. Specifically, we are concerned that Health Canada has not made adequate progress toward assuring that timely, accurate, and complete information from all provinces will be available in 2003. Nor can it be sure that provincial capacity is adequate and can be maintained to provide the information needed for a sustainable national system.

2.96 We will continue to monitor the progress of this surveillance system.

Measuring and reporting performance

2.97 In 1999 we noted that Health Canada had completed few evaluations and had no formal plan to evaluate surveillance systems. We also noted that the framework for measuring performance and the development of performance indicators were incomplete. Finally, we noted that the Department was reporting only limited information to Parliament.

2.98 During our 2002 follow-up, we noted that the Departmental Program Evaluation Division was working on evaluations of the Canadian Strategy on HIV/AIDS and Health Canada's Blood Safety Program. The Population and Public Health Branch has also evaluated a few surveillance systems. This is progress; but given that three years have passed, it is too slow.

2.99 The Department is still developing its performance measures. They have not been approved by senior management, nor have they been distributed widely in the Department.

2.100 Finally, reporting to Parliament remains inadequate. It is limited largely to information on activities and outputs. It does not include information on issues such as the value of surveillance information to support evidence-based decisions.

2.101 Recommendation. Health Canada should strengthen its evaluation, performance measurement, and reporting of results of its health surveillance activities.

Health Canada's response. The Department has strengthened its evaluation and performance measurement of health surveillance. Examples include the public release of the health indicators of First Nations health status and the enhanced use of performance information in the departmental performance report. In the performance report, performance expectations are made clear

Standing Committee on Public Accounts

and concrete, and in the vast majority of cases, key results are reported against expectations. The reliability of performance information is supported by facts, and the use of performance information is demonstrated. Progress will continue to be made in the future.

2.102 On 2 March 2000, the Standing Committee on Public Accounts invited our Office and Health Canada to a hearing on Chapter 14 of our September 1999 Report. In May 2000, the Committee released a report that included five recommendations.

2.103 The recommendations focussed on two themes. Four recommended improvements in reporting to Parliament on specific activities (implementation of the Network for Health Surveillance, results and outcomes of the Network, performance measurement and risk assessment, and implementation of the recommendations in our Report). The fifth recommended the development of tools to assist in evaluation, performance measurement, and risk assessment.

2.104 We found that Health Canada has reported some information about the activities of the Network for Health Surveillance. It provided information on important issues such as strategic plans, timelines, and budgets, but the progress it discussed was not measured against those plans, timelines, and budgets. As already noted, reporting on performance measurement and risk assessment remains limited, and only a few evaluations have been completed. The Department provided a status report in 2000 on its implementation of our recommendations, but not in 2001. Finally, we found in 2002 that Health Canada is still developing the tools it needs to assist in evaluation, performance measurement, and risk assessment.

Conclusion

2.105 Since our audit in 1999, Health Canada has made progress in establishing a national framework that allows for greater collaboration among the partners involved in health surveillance. It has also made progress in defining roles and responsibilities for responding to public health threats. However, for the most part, it still has no agreement with the other partners on important matters such as data sharing, common standards, and nationally reportable diseases.

2.106 Many of Health Canada's existing disease surveillance systems still lack timely, accurate, and complete disease information, although some surveillance systems have improved. To address some of the weaknesses in the surveillance of communicable diseases, Health Canada and the provinces have undertaken to co-operate on developing the Canadian Integrated Public Health Information Surveillance Project. They have made progress, but full implementation is not likely for some time.

2.107 For the most part, diabetes and breast cancer are the only chronic diseases with a national surveillance system. The Department has allocated

only limited resources to the surveillance of other chronic diseases, despite the recognized importance of this activity, and it lacks health surveillance information on cardiovascular disease, cancer (except breast cancer), musculoskeletal disease, chronic respiratory disease, mental illness, and injuries. Further, it is lacking in surveillance of risk determinants and the impact of interventions, screening, and treatment on health outcomes.

2.108 We identified several issues that Health Canada needs to resolve. At present, these issues are impeding or preventing progress. Many of them are financial issues. The Department lacks the financial capacity to fill gaps in the surveillance of chronic disease. It also lacks the financial capacity to maintain chronic disease surveillance systems. Further, the internal exercise of resource reallocation results in an erosion of financial capacity. Finally, Health Canada needs to set priorities for health surveillance activities and provide adequate funding to support those priorities.

2.109 Health Canada's evaluation, performance measurement, and reporting of results of its health surveillance activities remain weak.

2.110 We recognize that Health Canada is not solely responsible for a number of these weaknesses. We encourage it to continue to show strong leadership for collaboration and co-operation among all the partners in health surveillance to address these problems.

About the Follow-Up

Objective

The objective of this audit was to determine the progress made by Health Canada in developing the following:

- common standards and protocols to facilitate collaboration and sharing of information among all the players in the health surveillance process;
- means to ensure that required surveillance systems provide timely and relevant information to anticipate, prevent, and respond to health threats and emerging health risks;
- adequate procedures to measure performance and report results;
- solutions to identified problems.

Scope

The follow-up audit focussed on the recommendations made in our 1999 Report—Chapter 14, National Health Surveillance: Diseases and Injuries; and Chapter 15, Management of a Food-borne Disease Outbreak. We also followed up on recommendations made by the Standing Committee on Public Accounts. Health Canada has undertaken a number of new initiatives in the last three years, which we also reviewed.

We reviewed a departmental status report on the action taken in response to the recommendations. We carried out extensive interviews with Health Canada staff involved in surveillance activities. We also met with provincial health officials in several provinces and with local medical officers of health in several regions. Finally, we reviewed documentation supporting Health Canada's activities in health surveillance.

Our report presents the results of the areas that were re-audited.

Criteria

We expected that Health Canada would have made satisfactory progress in implementing our recommendations and those of the Public Accounts Committee.

The criteria from the 1999 audits remain relevant. Therefore, we expected that

- all players in health surveillance would clearly understand Health Canada's role and responsibilities in the national health surveillance process;
- a full range of documented protocols and procedures would exist that indicate clearly what each player should do when a disease outbreak or health threat occurs;
- all players in the health surveillance process would use common standards and protocols for classifying, collecting, and reporting data on diseases and injuries to ensure that all information is comparable across the country;
- Health Canada's surveillance systems for monitoring diseases and injuries would enable it to collect, analyze, and disseminate all the information needed to help anticipate, prevent, and respond to existing and emerging health risk;
- there would be procedures to measure the effectiveness of health surveillance activities and report results;
- Health Canada's health surveillance activities would be based on a sound risk-benefit approach and a rational priority-setting framework; and
- Health Canada would take appropriate action to resolve identified problems.

Ratings

We assessed the action of departments/agencies against our original audit recommendations (see Key Message at the beginning of the Chapter). We used the following ratings:

- **Completed.** Corrective action has been fully implemented
- **Satisfactory progress.** Progress is being made at a satisfactory pace
- **Limited progress.** Some progress is being made, but the pace or scope is not satisfactory
- **No progress.** No evidence of progress although the department or agency accepted the recommendation from the original audit
- **Rejected.** The department or agency did not accept the recommendation from the original audit
- **Unknown.** Status of progress is unknown or information is not available

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Chapter

3

Health Canada

Federal Support of Health Care Delivery

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Health Canada

Federal Support of Health Care Delivery

Assistant Auditor General: Maria Barrados
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Key Message

3.1 Health Canada has made only limited progress in addressing the weaknesses we identified in our 1999 audit. As a result, its monitoring still does not allow it to assess and report the extent of provincial and territorial compliance with the *Canada Health Act*. Resolving disputes over compliance with the Act remains slow. Both levels of government recently agreed to a process for dispute avoidance and resolution that holds potential for improving the resolution of disputes through co-operation and collaboration. The federal government still does not identify its intended contribution to health care funding. Parliament and Canadians need that information for informed debate on the future of health care.

ORIGINAL ISSUES	STATUS	RATING*
<p>3.2 Health Canada should assess the capacity of the information sources it uses for monitoring the operation of the <i>Canada Health Act</i> and determining the extent to which provinces and territories have satisfied the Act's criteria and conditions.</p>	<p>Health Canada has increased its staff and budget to monitor and assess compliance with the Act. It has also developed a process for consistent, proactive monitoring and improved its information systems. Health Canada needs to continue to work with the provinces and territories because it still does not have adequate information to assess the extent of provincial and territorial compliance with the <i>Canada Health Act</i> criteria and conditions for health care funding.</p>	<p>LIMITED PROGRESS</p>
<p>3.3 In its annual reports to Parliament, Health Canada should clearly indicate the extent to which each provincial and territorial health care insurance plan has satisfied the <i>Canada Health Act</i> criteria and conditions. Where it does not provide this information in the reports, it should clearly explain the reasons.</p>	<p>The Canada Health Act Annual Report provides a good description of provincial and territorial health care insurance legislation, as well as statistics on health care delivery. The Report does not indicate the extent to which each provincial and territorial health care insurance plan has satisfied the <i>Canada Health Act</i> criteria and conditions.</p>	<p>LIMITED PROGRESS</p>
<p>3.4 The federal government should explore options to improve information on its total contribution to provinces and territories for health care.</p>	<p>The federal government provides only limited information on its intended total contribution to the provinces and territories for future funding of health care.</p>	<p>LIMITED PROGRESS</p>

* Possible ratings are completed, satisfactory progress, limited progress, no progress, rejected, unknown. (See About the Follow-Up for an explanation of the ratings.)

Health Canada and the federal government have responded. Health Canada has not agreed with the recommendations but will address any gaps with regard to information collection in order to fulfill its obligations to administer the *Canada Health Act*. Health Canada has committed to further improving its performance measurement and reporting. The federal government has agreed to continue to explore options to improve health care information. The responses are included in the chapter.

Introduction

The federal government is a significant player in health care

3.5 The federal government is not directly responsible for the delivery of health care services in the provinces and territories; that is a provincial and territorial responsibility. However, the federal government supports health care by transferring funds to the provinces and territories to assist them in carrying out their health care mandates.

3.6 The federal government funds health care in a variety of ways. It provides direct funding for research, surveillance, and the development of the health “infostructure.” It also funds grants and contributions to individuals and organizations to participate in activities such as health promotion, health protection, disease prevention, and health research. The federal government does deliver health care services directly to specific groups of people, such as First Nations and Inuit, the Canadian Forces, veterans, inmates of federal penitentiaries, and members of the Royal Canadian Mounted Police.

3.7 The largest federal transfer to the provinces and territories provides support for health care, post-secondary education, and social assistance. These transfers and the other forms of health care funding make the federal government a significant player in health care.

Canada has a long history of publicly financed health care

3.8 Until the late 1940s, health care in Canada was dominated by private medicine and access to care was based on ability to pay for it. In 1947, Saskatchewan introduced a public insurance plan for hospital services that covered all residents, regardless of their ability to pay. This began the evolution of Canadian health care into the system we have today, a system that is publicly funded and aims to ensure that all residents of Canada have prepaid access to the health care they need. Exhibit 3.1 summarizes the key milestones in this evolution.

3.9 In 1957, the federal government introduced the *Hospital Insurance and Diagnostic Services Act* in an attempt to encourage all provinces to develop hospital insurance plans. Under the Act, the federal government offered to share the costs of eligible services roughly fifty-fifty with the provinces. As a condition for receiving federal money, the provinces and territories agreed to make insured services available to all of their residents on uniform terms and conditions. By 1961, all 10 provinces and the two territories had signed agreements establishing public insurance plans that provided universal coverage for in-patient hospital care.

3.10 In 1966 the government introduced the *Medical Care Act*, which provided for federal funding to cover close to half the cost of physician visits and services. To qualify for federal funding, a province or territory had to ensure that its medical insurance plan satisfied four criteria: it had to be publicly administered, portable, and universal; and insured services had to be

accessible. By 1972, all provinces and territories had extended their health insurance plans to include physician services.

3.11 The Canada Assistance Plan was also introduced in 1966. This was a federal–provincial program for sharing the costs of comprehensive welfare services. In 1977, the federal government established the Extended Health Care Services Program to provide financial assistance to the provinces and territories for ambulatory care, nursing home intermediate care, adult residential care, and home health care.

3.12 In 1977, the federal government replaced cost sharing with block funding. This move responded to concerns about the expense and unpredictability of cost sharing and allowed more flexibility for the provinces to set their spending priorities. A new mechanism for block fund transfers was introduced, called Established Programs Financing (EPF). The EPF combined federal transfers for hospital and medical services with transfers for post-secondary education and the Extended Health Care Services Program.

3.13 The federal health transfer through Established Programs Financing was in roughly equal portions of cash and tax point transfers. To provide the tax transfer, the federal government reduced its personal and corporate income tax rates, which allowed provinces to raise their tax rates by an equal amount. As a result, the revenue that would have flowed to the federal

Exhibit 3.1 Key milestones in the evolution of universal, publicly financed health care in Canada

1947	Saskatchewan introduced a public insurance plan for hospital services.
1957	The federal government introduced the <i>Hospital Insurance and Diagnostic Services Act</i> , a cost-shared program providing insurance coverage and access to hospital services.
1958–61	Provinces and territories joined the national hospital insurance program.
1961	Saskatchewan extended public health insurance to cover physician services outside hospitals.
1966	The federal government introduced the <i>Medical Care Act</i> to share the cost of medical care insurance plans with provinces.
1966	The federal government introduced the Canada Assistance Plan (CAP), a cost sharing plan for comprehensive welfare programs. The plan also covered certain health services.
1968–72	Provinces and territories joined the national medical care program.
1977	The <i>Federal–Provincial Fiscal Arrangements and Established Programs Financing Act</i> was enacted. Established Programs Financing (EPF) included transfers covering hospital insurance, medical care insurance, and post-secondary education; and the Extended Health Care Services Program.
1984	Parliament enacted the <i>Canada Health Act</i> .
1996	The federal government replaced EPF and CAP with the Canada Health and Social Transfer (CHST).
1999	The Prime minister and all premiers (except Quebec's) and territorial leaders signed the Social Union Framework Agreement.
2000	First ministers issued a communiqué on health that committed them to clear accountability reporting to Canadians.

government began to flow directly to the provincial governments. This revenue still goes to the provinces and continues to grow as their economies grow.

3.14 The *Canada Health Act* was passed in 1984, when Established Programs Financing was the main mechanism for transferring federal funds to the provinces for health care. The Act was a response to concerns that doctors' practice of extra-billing and hospitals' charging of user fees were creating a two-tiered health system that would threaten access to care. The *Canada Health Act* reaffirmed the federal government's commitment to universal, accessible, comprehensive, portable, and publicly administered health insurance (Exhibit 3.2).

Exhibit 3.2 *Canada Health Act*: Purpose and requirements

Purpose

The *Canada Health Act* aims to ensure that all residents of Canada have access to necessary health care on a prepaid basis.

The purpose of the *Canada Health Act* is to establish criteria and conditions in respect of insured health services and extended health care services provided under provincial law that must be met before a full cash contribution may be made.

Criteria

1. **Public administration.** The health insurance plan of a province/territory must be administered and operated on a non-profit basis by a public authority accountable to the provincial/territorial government.
2. **Comprehensiveness.** The plan must insure all medically necessary services provided by hospitals and physicians and, where permitted, services rendered by other health care practitioners.
3. **Universality.** The plan must entitle 100 percent of eligible residents to insured health services on uniform terms and conditions.
4. **Portability.** Residents are entitled to coverage when they move to another province/territory and when they travel within Canada or abroad (with some restrictions).
5. **Accessibility.** The plan must provide reasonable access to insured hospital and physician services on uniform terms and conditions. Additional charges to insured patients for insured services are not allowed. No one may be discriminated against on the basis of income, age, health status, etc.

Conditions

1. **Provision of information.** Provincial/territorial governments are required by regulations to provide annual estimates and statements on extra-billing and user charges. They are also required to voluntarily provide an annual statement describing the operation of their plans as they relate to the criteria and conditions of the Act. This information serves as a basis for the *Canada Health Act Annual Report*.
2. **Provincial recognition of federal contributions.** Provincial/territorial governments are required to give public recognition of federal transfers.

Provisions on extra-billing and user charges

1. **Extra-billing** for an amount in addition to any amount paid or to be paid for an insured health service by the health care insurance plan of a province.
2. **User charge** for an insured health service that is authorized or permitted by a provincial health care insurance plan that is not payable, directly or indirectly, by the plan, but does not include any charge imposed by extra-billing.

Penalty provisions

1. **Mandatory financial penalty** for extra-billing and user charges. Direct patient charges are subject to dollar-for-dollar deductions from federal transfer payments.
2. **Discretionary financial penalty** for non-compliance with the five criteria and two conditions. Financial penalties will reflect the gravity of the default.

Source: Health Canada, *Canada Health Act Annual Report*, 1997–98

3.15 In 1996, the Canada Health and Social Transfer (CHST) was introduced to replace Established Programs Financing and the Canada Assistance Plan. The CHST is a block fund or lump sum transfer from the federal government to the provinces and territories on a per capita basis to subsidize health care, post-secondary education, and social assistance. The provinces allocate the block fund among these social programs according to their own priorities.

The federal government influences health care delivery through the *Canada Health Act* and the *Canada Health and Social Transfer*

3.16 The federal government does not legislate health care directly. Instead, through the *Canada Health Act*, it supports the conditional transfer of payments to the provinces and territories for health care. The Canada Health and Social Transfer, administered by the Department of Finance through the *Federal-Provincial Fiscal Arrangements Act*, is a means by which the federal government influences health care in Canada.

3.17 By imposing conditions on the transfer of funds through the CHST, the *Canada Health Act* seeks to ensure that medically necessary services will be universally accessible, without direct charge, to residents of all Canadian provinces and territories. The conditions the Act imposes are its five criteria (Exhibit 3.2). The Act states that, in order that a province may qualify for a full cash contribution... [under the CHST], the health care insurance plan of the province must satisfy the criteria respecting: (a) public administration; (b) comprehensiveness; (c) universality; (d) portability; and (e) accessibility.

3.18 The five criteria of the *Canada Health Act* reflect national objectives. Health Canada's role is to assess the extent to which health care delivery in the provinces and territories complies with the Act's criteria and provisions and to authorize the payment of the CHST based on that assessment.

There are variations in the delivery of publicly funded health care services

3.19 The *Canada Health Act* covers hospital, physician, and surgical-dental services in a hospital that are judged to be medically necessary and requires, under the criterion of comprehensiveness, that these services be insured by provincial health care insurance plans. Achieving comprehensiveness does not ensure the public funding of the same set of health care services in every province. There are a number of reasons for a lack of uniformity. First, the term “medically necessary” is not defined in the legislation, and may be interpreted differently in each province. Further, the provinces and territories do not use a uniform method for determining which services are medically necessary. Similarly, each province and territory is separately and independently responsible for its own decisions to delist any medical services, that is, to no longer pay for them through the public health care insurance plan. Finally, each provincial health care insurance plan covers additional services that are not covered by the CHA but are publicly funded through the provincial plan. These additional services vary from province to province.

3.20 For all of these reasons, there are variations across the country in public coverage of certain health care services. For instance, the removal of

varicose veins and eye examinations for people aged 19 to 64 are medical services that are insured in some provinces but not in others. The extent and the impact of variations across the country are not known.

Recent increases in public health care expenditures

3.21 During the period 1991 to 1997, the proportion of public to total expenditure on health care declined. After 1997 the trend reversed, because the federal government announced significant increases in the CHST (Exhibit 3.3).

3.22 The pattern of health care spending has changed over the past decade. Spending on hospital and physician services has become a smaller percentage of total health care spending. These services are covered by the *Canada Health Act*. Health care expenditures for drugs have increased as a percentage of total health care expenditures. Drugs are not covered by the *Canada Health Act* unless they are administered in a hospital.

3.23 In 1984, when the *Canada Health Act* was passed, hospitals provided many services such as drugs, rehabilitation, convalescent care, and palliative care that today are delivered increasingly in the home or community. And they are delivered by a broader range of health care providers, such as nurses, nurse practitioners, physiotherapists, and occupational therapists. These services fall outside the scope of the *Canada Health Act*, and their delivery is often paid for by patients or by private health insurance plans.

Exhibit 3.3 Health care spending in Canada, 1991 to 2001

	1991	1993	1995	1997	1999	2001 (Forecast)
Total health care expenditure (\$ billions)	66.2	71.5	74.1	78.3	89.5	102.5
Public health care expenditure (\$ billions)	49.35	51.95	52.8	55	63.4	74.5
Private health care expenditure (\$ billions)	16.89	19.56	21.3	23.3	26.1	28
Total health care expenditure as a percentage of GDP	9.6	9.8	9.1	8.9	9.2	9.4
Public health care expenditure as a percentage of total	74.5	72.7	71.3	70.2	70.8	72.7
Private health care expenditure as a percentage of total	25.5	27.3	28.7	29.8	29.2	27.3
Total health care expenditures by use of funds as a percentage of total						
Hospitals	38.7	37.4	34.5	33.0	31.9	31.5
Physicians	15.4	14.7	14.3	14.2	13.6	13.5
Drugs (prescribed and non-prescribed)	11.6	12.7	13.5	14.4	14.9	15.2
Other	34.3	35.2	37.7	38.4	39.6	39.8

Source: Canadian Institute for Health Information

Weaknesses we identified in 1999

3.24 Our 1999 audit examined the *Canada Health Act* and the Canada Health and Social Transfer, the federal government's key mechanisms of support to the provinces and territories in their delivery of health care. Our 1999 Report (Chapter 29) discussed the way the government had used these tools as instruments of public policy, the purposes they had served, and their effectiveness in achieving the results they were designed to achieve.

3.25 We noted several weaknesses in Health Canada's reporting, monitoring, and enforcement activities, such as the following:

- The federal contribution to health care was not being reported to either Parliament or the Canadian public.
- Health Canada did not have the information it needed for effective monitoring of provincial and territorial compliance with the *Canada Health Act*.
- The Department was not reporting the extent to which the provinces and territories were complying with the Act.
- It was not rigorously enforcing the Act.

Focus of the follow-up

3.26 Our follow-up audit reviewed the current administration of the *Canada Health Act* in light of our 1999 observations and recommendations.

3.27 We looked specifically at Health Canada's activities and systems for collecting information. We assessed the Department's capacity to collect and use information to monitor and report on compliance with the Act. We examined the enforcement of the Act. Finally, we examined the Department's development of a mechanism for resolving disputes with a province or territory. Our report presents the results of the areas that were re-audited. Further details can be found about the follow-up's objectives, scope, approach, and criteria in About the Follow-Up at the end of the chapter.

Observations and Recommendations

Federal contribution to health care is still unclear

3.28 In our 1999 report, we observed that the federal government could not say how much it contributed, in total, to health care. We recognized that the design of the CHST as a block transfer meant that Parliament and the general public also had no clear idea of the amount of federal funding that was directed to health care. We also made clear our expectation that the federal government be in a position to provide Canadians with information on its contribution to health care.

3.29 The design of the CHST as a block transfer reflects a federal policy decision to give the provinces and territories more flexibility to allocate resources among the designated areas of social funding. Although the total amount allocated to social programs is known, Canadians do not know what portion of the CHST the federal government intends to contribute to health care.

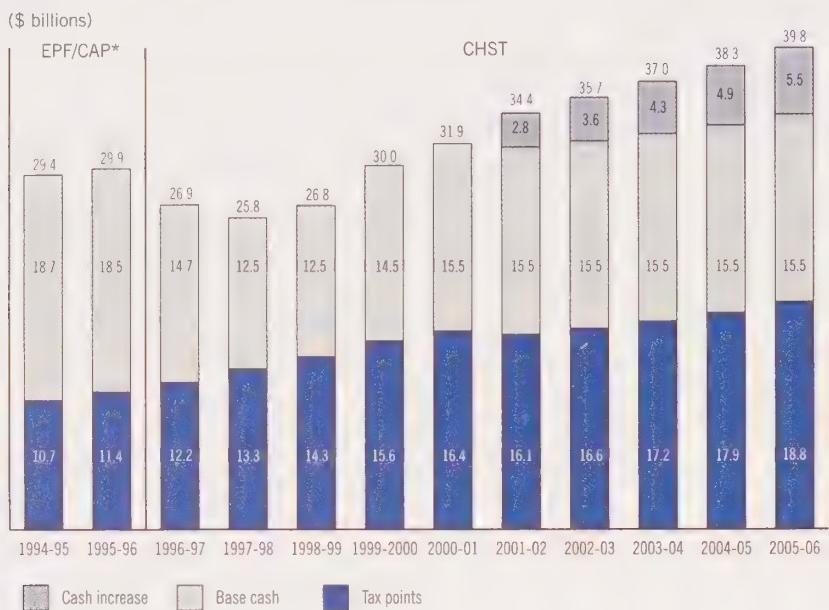
3.30 In 2000, the Department of Finance made a number of estimates of the federal government's support to health provided through transfers to the provinces and territories. One of the estimates assumed the same historical allocation to health that prevailed under the transfer system prior to 1996–97 (43 percent cash and 68 percent tax points, for a weighted average of 54.3 percent). The other estimates suggested that the allocation might be higher. The Department of Finance told us that the estimate based on historical allocation was made for illustrative purposes only. In recent years, the federal government has invested additional funds, primarily for health, through the CHST (Exhibit 3.4). In July 2002, the Department of Finance made a new estimate based on provincial spending on health and other social programs covered by the CHST. Using the same breakdown, it estimated that 62 percent of the CHST (\$21 billion in 2001–02), on average, is spent on health annually.

3.31 No distinction is made in the CHST to indicate how much is intended for each of the social programs it funds. The federal transfer is a combination of cash contributions and tax points for the delivery of health care, post-secondary education, and social assistance (Exhibit 3.5). There is no agreed-upon estimate that captures the federal contribution to health care. The Canadian public has not had a clear idea of the amount of federal funding directed to health care. Nor can the federal government say what its total contribution to health care will be. Consequently, parliamentarians must make decisions about federal support of health care delivery without adequate information on the federal contribution.

Exhibit 3.4 Recent federal investments in health care

1999	The federal Budget announced increased funding for the Canada Health and Social Transfer (CHST) of \$11.5 billion over five years, specifically for health care.
2000	<p>The Budget announced a \$2.5 billion increase in the CHST over four years to help provinces and territories fund post-secondary education and health care.</p> <p>First Ministers agreed on an action plan for renewing health care and investing in early childhood development. The federal government committed to invest an additional \$21.1 billion in the CHST over five years, including \$2.2 billion for early childhood development. It would also invest in three targeted areas:</p> <ul style="list-style-type: none"> • \$1 billion in 2000–01 and 2001–02, in transfers to the provinces and territories for new medical equipment; • \$800 million over four years, beginning in 2001–02, in a renewed Health Transition Fund to support innovation and reform in primary care; and • \$500 million to establish an independent corporation mandated to accelerate the development and adoption of modern systems of information technology, such as electronic patients' records.

Source: Department of Finance

Exhibit 3.5 Canada Health and Social Transfer (CHST)

*EPF Established Programs Financing
CAP Canada Assistance Plan

Source: Department of Finance, at 22 July 2002

3.32 Public opinion polls show that Canadians value Medicare and are concerned about its long-term sustainability. There is considerable debate over the federal contribution to health care. Much of the debate has been about incremental funding—that is, reductions in or additions to the federal contribution.

3.33 In 2000, the federal government put an additional \$21.1 billion into the CHST for five years. This increase was targeted primarily to support health care delivery in the provinces and territories. When the increase was announced, First Ministers agreed to improve public reporting in their own provinces as a way to inform Canadians about some of the effects of health care spending.

3.34 The current public debate on the future of health care is evidence of Canadians' concern about their health care system. The debate is limited by a lack of sufficient information on the federal contribution to health care funding: Canadians do not know how much the federal government contributes. We would expect the federal government to be in a position to tell Canadians what it intends to contribute to health care funding in the future. This information could help to inform the current debate on health care reform. Further, federal efforts to spell out its own intent would not affect the flexibility of the provinces and territories to allocate the CHST block funding according to their own priorities.

3.35 Recommendation. The federal government should provide sufficient information to Parliament to allow for informed debate on future health care funding.

Government's response. The federal government provides full information on its own direct health spending through the Main Estimates and the Health Canada Web site. It also provides full information (in Budget booklets, the Finance Canada Web site, and the Main Estimates) on its transfer payments to provinces and territories, which, in the case of the Canada Health and Social Transfer (CHST), is provided to support provincial and territorial spending on health care, post-secondary education, and social assistance and social services, including early childhood development. The policy intent in establishing the CHST block fund is to provide provinces and territories with the flexibility to allocate funds according to their respective priorities; in this context, provinces and territories have the flexibility to use all of the CHST cash in support of the *Canada Health Act* if they wish. The federal government has made strides in ensuring that more information is made available on the nature and policy objectives of transfer programs, including the CHST, and will continue to explore options to improve health care information.

Monitoring compliance with the *Canada Health Act*

3.36 We observed in 1999 that Health Canada did not routinely collect the information it needed for determining to what extent the provinces and territories were complying with the *Canada Health Act*. We noted that its sources of information were not sufficient to determine the extent of compliance. We also noted that the Department had not collected reliable information on relevant indicators.

3.37 We expected Health Canada to use a monitoring system that collected sufficient relevant information on compliance with the *Canada Health Act*, analyzed it, reported it, and provided the Department with the information it needed to administer the Act.

Increased monitoring capacity

3.38 A reorganization at Health Canada in 2000 created the Canada Health Act Division. The new division's major responsibilities include monitoring provincial and territorial health insurance plans to ensure that they meet the criteria and conditions of the Act; informing the Minister of possible non-compliance and recommending appropriate action to resolve it; providing information to senior Health Canada officials on the monitoring and interpretation of the Act; reporting annually to Parliament on provincial and territorial compliance with the Act; and administering and enforcing the Act.

3.39 In the Canada Health Act Division, annual funding was increased from \$2.5 million in 1999 to \$4 million; the additional funding was to support activities in the Department's regions and at headquarters. Two new positions were created in each of Health Canada's six regions, and the total staff complement of the Division rose from 23 to 49. We were told that the new positions are responsible primarily to collect information for the purposes of monitoring compliance with the Act.

3.40 At headquarters, Health Canada established the Information, Analysis and Reporting Unit, responsible for collecting and analyzing information to improve the Department's capacity to monitor provincial and territorial compliance with the *Canada Health Act*. The Unit developed the Canada Health Act Information System to facilitate the storage, tracking, and analysis of information related to compliance. The unit is also responsible for producing the Canada Health Act Annual Report.

Limited number of information sources for monitoring

3.41 Our follow-up found that the sources of information Health Canada uses for monitoring purposes have not changed substantially since our 1999 audit. There are three major sources of information available to the regional analysts—third-party sources, public complaints, and voluntary submissions by the provinces and territories for the purpose of the annual report.

3.42 Third-party sources include the media, stakeholders' publications, personal and professional contacts, and conferences. The Department's regional analysts rely heavily on these sources to track and identify potential cases of non-compliance in the provincial delivery of health care. These sources still do not allow the Department to assess the extent of provinces' and territories' compliance with the *Canada Health Act*.

3.43 Complaints by individuals are the second major source of information on potential cases of non-compliance. Complaints trigger queries and investigations that can lead to the identification of cases of non-compliance with the conditions of the *Canada Health Act*. Complaint-driven monitoring assumes that where no complaints are reported, conditions are being met.

3.44 Finally, the provinces and territories submit information voluntarily to Health Canada each year, according to guidelines developed by the Department. This information describes the operation of the provincial and territorial health care insurance plans in relation to the Act. The information is analyzed by the Department to ensure that provincial and territorial health care insurance legislation comply with the *Canada Health Act*.

3.45 As in 1999, we found that these sources alone do not provide sufficient information to monitor compliance and determine the extent of compliance. Information the Department provided to us shows that none of the investigations of potential non-compliance initiated since 1999 has been related to the criteria of the Act. All new investigations reported to us have dealt with the provisions of the Act, that is, user charges and extra-billing. The fact that there are no investigations related to the criteria of the Act raises some questions.

3.46 We are concerned that there may be cases of non-compliance with the criteria of the Act that Health Canada has not investigated.

Limited access to the information that could identify non-compliance

3.47 There are no regulations that require the provinces and territories to submit specific information to Health Canada, apart from extra-billing and user charges. Health Canada attempts to monitor health care delivery in the

provinces and territories in the absence of required reporting. While the Act places conditions on the transfer of CHST funds to the provinces for health care delivery, the legislation does not include regulations to facilitate monitoring for provincial compliance with these conditions. When the Act was passed in 1984, regulations were drafted to require reporting; however, they were never promulgated. As a result, the Department has only limited ability to obtain the information it needs from the provinces.

3.48 The *Canada Health Act* defines the conditions for the federal transfer of funds to the provinces for health care. It also includes a provision for obtaining the information Health Canada needs from the provinces and territories. That provision has not been exercised. In its interactions with the provinces and territories, Health Canada has tended to take a non-intrusive approach to administering the *Canada Health Act*.

3.49 The Department's regional analysts informed us that they cannot collect information from medical facilities because delivery of services is under provincial and territorial jurisdiction. The provinces and territories are responsible for ensuring that health care delivery complies with their own health care legislation; they are not obliged to report this information to Health Canada. Thus, Health Canada does not have access to the information it needs to administer the Act.

3.50 We observed that other organizations collect data on health care delivery. The Canadian Institute for Health Information (CIHI) has collected information on waiting times in hospitals; Statistics Canada conducts the Canadian Community Health survey; and organizations outside government, such as the Canadian Medical Association and the Canadian Healthcare Association, also collect health statistics. While these organizations do not have the same mandate as Health Canada, they do collect some information that Health Canada could use for monitoring but currently is not.

Health Canada still does not report the extent of compliance

3.51 We noted in 1999 that previous editions of the *Canada Health Act* Annual Report to Parliament had not met the Act's requirement that Health Canada indicate to what extent each province and territory had satisfied the criteria and conditions in the Act. The annual reports were descriptive and narrative, and they did not provide enough information for Parliament to determine the extent of provincial and territorial compliance.

3.52 The Minister of Health has an obligation under the Act to report on its administration and operation, including all relevant information on the extent to which the provinces have satisfied the conditions for payment under the Act.

3.53 The *Canada Health Act* Annual Report contains general descriptions of the non-compliance issues under investigation. It also shows, by province and territory, penalties levied during the previous year and annual deductions since the passage of the *Canada Health Act*.

3.54 Neither of the two most recent annual reports (1999–2000, 2000–01) contains an assessment of the extent to which the provincial health care insurance plans comply with the *Canada Health Act*. The provinces and territories voluntarily submit information to Health Canada as prescribed by a template developed by the Canada Health Act Division. This information is reported in the Canada Health Act Annual Report but is not used to determine compliance. The reports provide good descriptions of provincial and territorial health care insurance legislation. Health Canada does not conclude to what extent this legislation complies with the *Canada Health Act*. The reports also provide statistics on health care delivery. Health Canada does not conclude to what extent provincial and territorial health care delivery complies with the federal legislation. As a result, members of Parliament cannot determine from the Canada Health Act Annual Report whether the spending of billions of dollars transferred to the provinces and territories results in health care delivery that meets the intent of the Act.

First Ministers agree to report publicly on performance of their health care systems

3.55 In September 2000, First Ministers issued a communiqué on health that committed them to clear accountability reporting to Canadians. This accompanied the announcement of \$21.1 billion in new federal investments over five years to support health care renewal.

3.56 First Ministers directed their health ministers to collaborate on developing 14 indicator areas against which each government would begin reporting by September 2002. These indicator areas are to address health status, health outcomes, and quality of service. Public reporting would include verification by an independent party.

3.57 Each jurisdiction (federal, provincial, and territorial) was to report to its constituents in September 2002 on the 14 indicator areas agreed on. This initiative represents a step in the right direction. Among the indicators, two relate to compliance (hospital waiting times and access to first-contact health services). If the governments pursue this initiative and continue to collaborate on developing additional indicators, this type of reporting could provide Canadians with information on the public administration, universality, accessibility, comprehensiveness, and portability of health care.

3.58 Health Canada recognizes that there are shortcomings in the collection of health information. First Ministers are committed to working together on the development of a comprehensive framework using jointly agreed comparable indicators to address health status, health outcomes, and quality of service. To improve monitoring and reporting requires the collaboration of provinces and territories with the federal government.

3.59 Recommendation. Health Canada should, in collaboration with the provinces and territories, fulfil its obligation to administer the *Canada Health Act* by collecting the information it needs to enforce and report compliance with the Act.

Health Canada's response. Health Canada is already collecting considerable information on the activities of provincial and territorial health insurance plans. This information is used to assess provincial and territorial compliance with the criteria and conditions of the *Canada Health Act* and to report to Parliament.

Any gaps with regard to information collection will be addressed in the context of the provisions of the *Canada Health Act* Dispute Avoidance and Resolution process agreed to by the provinces and territories in April 2002. The process allows for governments to engage in discussions, information exchange, and joint fact-finding to ensure that they have all the necessary information to assess concerns with regard to the interpretation of and compliance with the *Canada Health Act*.

When non-compliance has been identified, resolution continues to be slow

3.60 In 1999 we reported that the resolution of non-compliance issues was a slow process. We cited examples of suspected non-compliance that had remained unresolved for a number of years. At the time of that report, there were 14 unresolved issues. Three of them have since been resolved; the 11 remaining issues have been outstanding for five years or longer.

3.61 The process for resolving federal/provincial differences over compliance with the CHA has remained slow. Since 1999, Health Canada has identified 12 more cases of suspected or confirmed non-compliance and has attempted to deal with them through means other than penalties. Two of the issues have been resolved; 10 remain outstanding.

3.62 We have been told that the slow resolution of disputes is partly due to difficulties encountered in the interpretation of the *Canada Health Act*. We note that Health Canada has developed the *Canada Health Act Policy Interpretation Manual* for employees of the Canada Health Act Division. However, the Department has not shared the manual with the provinces and territories because of legal constraints. Consequently, different interpretations of the Act at various levels of government have hindered the timely resolution of problems. Enforcement of the *Canada Health Act*, whether through penalties or negotiations, could be facilitated by an attempt to ensure timely and ongoing discussion of the Act's interpretation by all parties.

3.63 In 1999 we recognized the need for federal/provincial/territorial collaboration to avoid disputes or resolve them, as a means of enforcing the Act. Co-operation and collaboration were the major themes of the Social Union Framework Agreement signed in February 1999 by the Prime Minister and all premiers (except Quebec's). The Agreement describes how federal, provincial, and territorial governments will work together to sustain Canada's social programs.

3.64 In the spirit of the Agreement, Health Canada is committed to administering the *Canada Health Act* in a non-intrusive manner and in collaboration with provincial and territorial governments. To this end, the Department has worked with the provinces and territories to develop a process to facilitate the avoidance of disputes and the resolution of non-

compliance issues. Agreement on the process was reached in April 2002. It has not been used yet, but it has potential for improving collaboration to avoid and resolve non-compliance issues.

When non-compliance issues cannot be resolved, penalties may be imposed

3.65 Negotiation is the first course of action in the dispute resolution process. If negotiation fails, the Minister may impose a penalty. The *Canada Health Act* provides for two kinds of penalty. The first is a mandatory penalty related only to the provisions of the Act that cover extra-billing and user charges. A mandatory penalty amounts to a dollar-for-dollar deduction from the federal CHST payment to the province or territory that has allowed extra-billing or user charges. The second type of penalty is a discretionary penalty. Under sections 14 to 17 of the Act, discretionary penalties (CHST reductions) can be imposed if a province or territory has not satisfied any one of the Act's criteria for health care delivery and if all reasonable efforts at consultation and negotiation have failed. At this point, the Minister may refer the matter to the Governor in Council for a decision on whether the CHST should be reduced.

3.66 In 1999 we observed that enforcement of the *Canada Health Act* through penalties for non-compliance had been limited to the mandatory penalty for non-compliance with the extra-billing and user fee provisions of the Act. The federal government had never applied the discretionary penalties for non-compliance with the criteria of the Act.

3.67 The Act imposes obligations on the federal government. It defines the conditions that the provinces must meet to receive federal payments. If a provincial health care insurance plan falls short of these conditions, the federal government has the legislative authority to take measures that can include withholding all contributions to the offending province.

Few penalties have been imposed

3.68 The Canada Health Act Annual Report 2001–2002 shows that the federal government imposed one penalty for user charges. Exhibit 3.6 shows the number of penalties imposed since 1995 and their total value.

3.69 Health Canada has told us that it hesitates to impose penalties. It has shown a strong preference for consultation and negotiation to resolve disputes in collaboration with the provinces and territories. It believes that if it were to impose penalties, the provinces and territories could simply choose to absorb them and continue to contravene the Act.

Evaluating and reporting performance

3.70 In 1999 we reported that an evaluation by the Department had focussed on the Health Insurance Division's procedures for monitoring whether provincial health care delivery met the accessibility criterion of the Act. The evaluation noted that it was not clear how effectively the Division monitored the status of the health care system, including the implications of emerging issues that affect the underlying principles of the Act.

Exhibit 3.6 Annual deductions from Canada Health and Social Transfer, by province and territory (\$ thousands)

Province/ territory	1995–96		1996–97		1997–98		1998–99		1999–2000		2000–01		Total gross deductions 1995–96 to 2000–01		
	Extra- billing	User charges	Extra-billing	User charges	User charges	Total									
Newfoundland and Labrador	—	—	46	96	—	—	128	—	53	—	—	—	—	323	323
Prince Edward Island	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Nova Scotia	32	—	—	72	57	—	—	—	39	—	—	—	—	—	319
New Brunswick	—	—	—	—	—	—	—	—	—	—	—	—	—	—	319
Quebec	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Ontario	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Manitoba	—	—	269	588	—	—	—	—	612	—	—	—	—	—	2,056
Saskatchewan	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,056
Alberta	—	—	—	—	2,319	1,266	—	—	—	—	—	—	—	—	3,585
British Columbia	—	—	—	—	—	—	—	—	—	—	—	—	43	43	3,585
Yukon	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Northwest Territories	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Nunavut	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Provincial/ Territorial Total	43	2,666	—	2,022	—	772	—	704	—	61	—	58	43	6,283	6,326

Source: Health Canada, Canada Health Act Annual Report, 2000–2001

The evaluation examined only the Division's monitoring activities; it did not question, for example, whether Canadians do in fact have reasonable access to health services across the country.

3.71 Health Canada agreed with our recommendation to deal with key issues of the *Canada Health Act* in future evaluations. However, it has suspended further evaluation of its responsibilities under the *Canada Health Act*, in light of several ongoing studies of the health care system, including the following:

- Commission on the Future of Health Care in Canada (chaired by Roy Romanow), report expected in 2002
- Standing Senate Committee on Social Affairs, Science and Technology, *The Health of Canadians—The Federal Role* (tabled by Senator Kirby), two reports in 2001 and another three to be tabled in 2002
- Alberta Premier's Advisory Council on Health (chaired by Don Mazankowski), report tabled January 2002
- Saskatchewan Commission on Medicare (chaired by Ken Fyke), report tabled April 2001
- Quebec's Commission d'étude sur les services de santé et les services sociaux (chaired by Michel Clair), report tabled December 2000

Commitment to reporting on performance and effectiveness

3.72 The 1999 Budget announced the \$43 million health-related Federal Accountability Initiative. The initiative committed Health Canada to becoming more accountable to Canadians for the performance of its own health programs. The Department lacked the capacity in 1999 to undertake the initiative and we recommended that it explore options to meet its commitment.

3.73 Our follow-up found that Health Canada has done some work on this initiative, for example, its Performance Measurement Development Project. However, it has not completed the project; it has not yet fully developed performance expectations and reported against them. The Department was not able to provide us with an action plan and target dates.

3.74 Recommendation. Health Canada should ensure that the Federal Accountability Initiative provides the required performance measures of its own programs and reports against them.

Health Canada's response. Health Canada's investment in the Federal Accountability Initiative has served to advance the Department's policies and practices with respect to performance measurement and reporting to Canadians.

Health Canada is meeting its commitments to develop indicators and report on them. As part of the September 2000 First Ministers' commitment to regular federal/provincial/territorial reporting on health system performance, Health Canada is preparing a report on performance, including data on First Nations health as well as information with regard to veterans, inmates, and military personnel. This report will be published in September 2002.

Health Canada is working expeditiously on the development of performance indicators for the Department, which will be the basis for further improvements in performance reporting. The indicators will be proposed for internal approval in September 2002 to be used in the departmental performance report in the following year.

Conclusion

3.75 Weaknesses in the information that Health Canada collects and reports annually to Parliament on the administration and operation of the *Canada Health Act* remain a long-standing problem. Increased monitoring has not been able to remedy the problem of limited sources of information. Health Canada does not use the information it collects to assess or report on the extent of provincial and territorial compliance with the criteria and conditions of the *Canada Health Act*.

3.76 Health Canada has tended to take a non-intrusive approach to administering the Act. However, this approach has not brought about the speedy resolution of issues related to non-compliance with and interpretation of the Act. The majority of the non-compliance issues identified by Health Canada over the past 10 years have remained unresolved for five years or longer. Few penalties have been levied for non-compliance with the provisions of the Act. No penalties have been levied for non-compliance with the criteria of the Act.

3.77 Health Canada has suspended its evaluation of programs in this area because of the number of ongoing studies of the health care delivery system. The Department remains committed to measuring and reporting on performance. However, it has not yet completed the Performance Management Development Project.

3.78 The federal government needs to provide Parliament with adequate information on its contribution to provinces and territories for health care. Meaningful participation in the current debate on health care depends on a better appreciation of the federal contribution to this social program, one that Canadians have said helps to define this country.

About the Follow-Up

Objective

The objective of this follow-up audit was to identify Health Canada's progress in determining the extent to which federal efforts to support and monitor health care delivery

- reflect clear objectives,
- adequately report performance, and
- facilitate review and evaluation.

Scope and approach

The follow-up audit focussed on the recommendations made in our 1999 Report, Chapter 29, Federal Support of Health Care Delivery. Health Canada has undertaken a number of new initiatives in the last three years, which we also reviewed.

We reviewed a status report by the Department on the action it has taken in response to our recommendations. We carried out extensive interviews with Health Canada staff involved in the administration of the *Canada Health Act* and with staff of the Department of Finance and the Privy Council Office. We also met with stakeholders and Health Canada staff in some regions. Finally, we reviewed documentation related to reported activities.

Our report presents the results of the areas that were re-audited.

Criteria

We expected that Health Canada would have made satisfactory progress in implementing our recommendations.

The criteria from the 1999 audit remain relevant. Therefore, we expected to find the following:

- a commitment to achieving consensus among the federal, provincial, and territorial governments on objectives, roles and responsibilities, and standards;
- a process for collecting and reporting information on performance; and
- a process for interpretation and enforcement of the *Canada Health Act* that is effective and transparent.

Ratings

We assessed the action of The Departments or Agency against our original audit recommendations (see Key Message at the beginning of the Chapter). We used the following ratings:

- **Completed.** Corrective action has been fully implemented
- **Satisfactory progress.** Progress is being made at a satisfactory pace
- **Limited progress.** Some progress is being made, but the pace or scope is not satisfactory
- **No progress.** No evidence of progress although the department or agency accepted the recommendation from the original audit
- **Rejected.** The department or agency did not accept the recommendation from the original audit
- **Unknown.** Status of progress is unknown or information is not available

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Chapter

4

National Defence
NATO Flying Training in Canada

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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National Defence

NATO Flying Training in Canada

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Key Message

4.1 National Defence has entered into a \$2.8-billion contract to train pilots over 20 years as part of the NATO Flying Training in Canada program. During the first two years of program implementation, National Defence used only about 41 percent of the training capacity that it paid for. Because of the restrictive terms of the contract and the problems encountered during start up, about \$65 million in training costs were paid for training that was not obtained. The Department has informed us that there are contractual opportunities to recoup some of this expense. These opportunities need to be pursued now.

ORIGINAL ISSUES	PROGRESS	RATING*
<p>4.2 The Treasury Board Secretariat should develop guidelines and training for large service contracts for multi-year terms as part of its continuing work on procurement reform.</p>	<p>In December 2001, we found that work on procurement reform had not addressed our concerns about partnering. The Treasury Board Secretariat's new policy on alternative service delivery provides some helpful guidelines, but is general in nature. Guidance on strategic direction and best practices in complex procurement has been completed and according to the Treasury Board Secretariat complementary training will be provided.</p>	<p>LIMITED PROGRESS</p>

NEW ISSUES
<p>4.3 National Defence did not train the contracted number of student pilots during the first two years of the NATO Flying Training in Canada program. In total, National Defence only used 41 percent of the training slots it paid for from February 2000 to December 2001. In spite of this, National Defence continued to pay its full fees for those years due to the nature of the contract. The total amount paid was \$179.5 million for the right to use 355 training slots but National Defence used only 136 and sold off 10.</p>
<p>4.4 We are concerned that similar problems can occur in the future as the Department enters into other long-term support service contracts. In 1999 we reported to Parliament on two contracts for training that also showed the types of problems found in this follow-up.</p>

*Possible ratings are completed, satisfactory progress, limited progress, no progress, rejected, unknown. (See About the Follow-Up for an explanation of the ratings.)

The Department has responded. National Defence agrees with most of our conclusions but feels that because of the unique nature of this program, many of the issues we raise were start-up challenges that were to be expected. Its responses, presented at the end of the chapter, elaborate on the actions it will take to address our concerns and recommendations.

Introduction

4.5 This follow-up on the NATO Flying Training in Canada program is an audit of National Defence's implementation and management of the \$2.8-billion contract for a 20-year term for military pilot training. Our 1999 audit reviewed the contracting process up to the signing of the contract in May 1998. Pilot training was planned to start in February 2000. This follow-up reports on the results achieved during the first two years after planned start-up.

4.6 In 1999, we reported that the contract was awarded without competition, that the profit mark-up was not consistent with current Government of Canada guidelines or supported by adequate analysis of contractor risk, and that the chosen financial arrangements increases some risks (Appendix A). Departmental officials responded that a major advantage of moving to a training system supported by a contractor was the shifting of risk to the contractor. However, they had not quantified this risk before awarding the contract.

4.7 In our December 2001 follow-up report on National Defence—Alternative Service Delivery we reported that National Defence had changed its approach to alternative service delivery projects and that employee training was now available. We mentioned that National Defence did not address alternative service delivery projects in its Report on Plans and Priorities and that the government's work on procurement reform had failed to address our original concerns about large service contracts for multi-year terms.

4.8 This follow-up focusses on the NATO Flying Training in Canada program. We assessed whether National Defence had used the levels of service paid for from February 2000 to December 2001 and whether it had received value for money. As well, we followed up on our 1999 recommendations to the Treasury Board Secretariat and Public Works and Government Services Canada's continuing work on procurement reform.

Focus of the follow-up

4.9 The objectives of this follow-up were to report to Parliament on the implementation and management of the NATO Flying Training in Canada contract from February 2000 to December 2001. During the contracting process, the Department determined how many pilots would be trained by the system for the next 20 years. We did not audit the planning process or the numbers that were agreed to by the Department. Rather, our audit examined whether National Defence used the services that it paid for and whether it obtained value for money.

4.10 We did not audit the activities of the prime contractor. Our audit was limited to National Defence, Public Works and Government Services Canada, and the Treasury Board Secretariat. We reported facts regarding contract delivery, but limited our comments and observations to whether the actions of the government were appropriate. Further details can be found in About the Follow-Up at the end of the chapter.

Observations

The NATO Flying Training in Canada program



CT-156 Harvard II aircraft used for Phase II basic flying training.



CT-155 Hawk aircraft used for Phase III advanced and Phase IV fighter lead-in training.

4.11 The program provides flying training to military student pilots to fly the Canadian Forces' helicopters, multi-engine aircraft and the CF-18 Hornet jet fighters. The program trains pilots who have already passed primary flying training by offering four additional phases of training—basic Phase IIA, basic Phase IIB, advanced Phase III, and fighter lead-in training Phase IV (Appendix B). The first three training phases are taught at Moose Jaw, Saskatchewan and fighter lead-in training is taught at Cold Lake, Alberta. Those who will fly the CF-18 Hornet take all four phases of the program. The pilots who will fly helicopters and multi-engine aircraft go on to a separate training program in Portage la Prairie after they graduate from basic flying training Phase IIA.

4.12 The Harvard II aircraft is used for basic flying training. The Hawk aircraft is used for advanced Phase III and fighter lead-in training Phase IV.

4.13 As the prime contractor, Bombardier Inc. co-ordinated start-up activities with several international firms. The prime contractor is responsible for providing and supporting aircraft and simulators. They also provide ground school training for phases IIA, IIB, and III in Moose Jaw, classroom training systems, and maintenance services. The prime contractor provides the aircraft by leasing them for the life of the program from a not-for-profit company created at the start of the NATO Flying Training in Canada program.

4.14 National Defence and the prime contractor share some responsibilities: design of ground school training, scheduling of student facilities and aircraft, and the provision of operational and base support services.

4.15 National Defence is responsible for overall program management including operational control of training, providing instructors for flight training, providing infrastructure and military flying training areas at Moose Jaw and Cold Lake, and for the design, development, and conduct of flying training. It is also responsible for ground school training for the fighter lead-in phase, quality assurance, and student administration.

4.16 National Defence selected this as an alternative to training its pilots on the aging Tutor aircraft. It was one of three options for training pilots that the Department studied in the early 1990s (Appendix C). The other two options were to either purchase fighter pilot training off-shore or to upgrade the Tutors and extend the original program.

International participation is essential

4.17 Government approval of the program depended on the participation of other nations to help offset the costs of new aircraft and simulators. Without international participants, National Defence would be responsible for all the costs of the program. The government directed that the established fees charged for foreign participants would be on a full cost recoverable basis. As of December 2001, Canada and the air forces of four other countries were

participating in the program—Denmark, the UK, Italy, and Singapore. The Hungarian Air Force has also signed on to the program and will start training pilots in 2002.

4.18 National Defence and the participating countries pay for a specified number of training slots each year. For example, National Defence has contracted for 141.6 Phase IIA basic flying training slots each year. In addition, other nations have purchased training slots based on the number of years they have committed to the program. The levels of service the prime contractor is required to provide are spelled out in the various contracts and agreements under the program (Exhibit 4.1).

Exhibit 4.1 NATO Flying Training in Canada program, 2001

Country	Years committed ¹	2001 Training Phase Capacity Bought			
		Basic Phase IIA	Basic Phase IIB	Advanced Phase III	Fighter lead-in Phase IV
Canada	20	141.6	22	32	20.2 ²
Denmark	20	6	5	5	5
Italy	20	3	3	2	2
Singapore	20	0	0	6	4
United Kingdom	10	0	0	2	20
Total Starts		150.6	30	47	51.2

¹ Years that the country has committed to participate in the program.

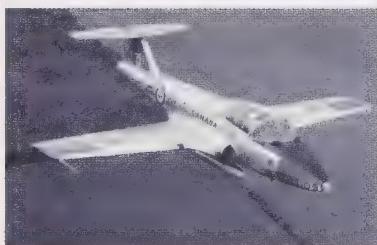
² Canada bought 24.2 training slots and in 2001 sold 4 to other countries as part of a long-term sale; 20.2 slots remained.

Source: Canada Services Agreement amendments

National Defence states that the contractor is not providing the required levels of service in basic flying training Phase II

4.19 During the first two years of the program (from February 2000 to December 2001), National Defence states that it was only able to use 105.4 of the 265.6 Phase IIA basic flying training slots it purchased, or 40 percent. It was expected that during this time National Defence would have graduated about 216 student pilots from Phase IIA (assuming 15 percent attrition). Due to delays and cancellations, the expected graduation numbers were revised to 160 Canadian pilots but by December 2001 only 61 Canadian student pilots graduated from this phase of the program. Many that should have finished in 2001 will now finish in 2002.

4.20 Prior to January 2000, the Canadian Forces trained its own pilots on the Tutor aircraft. Once the NATO Flying Training in Canada contract was signed, the Department decided to shut down its existing program prior to the start-up of the NATO Flying Training in Canada program. The Tutor training



CT-114 Tutor aircraft used for pilot training prior to the NATO Flying Training in Canada program.

system had produced 64 basic flying training graduates in one year (1999) from an intake of 78 students. By December 2001, the NATO Flying Training in Canada program had not reached this level of performance after two years of operation and when National Defence is short of pilots for its helicopters, multi-engine, and fighter aircraft.

4.21 The first four courses of the NATO Flying Training in Canada program were originally scheduled to start between February and May 2000, but were cancelled because of late delivery of the aircraft and simulators. Problems in acquiring the Harvard II aircraft and technical data from the United States due to International Trade in Arms Regulations (ITAR) issues, aircraft engine problems, and certification problems with the aircraft and aircraft maintenance operation meant that the program did not start training students until June 2000.

4.22 In August 2000, two months after basic flying training had started, a problem with the engine oil cooler caused National Defence to ground the Harvard II aircraft because of concerns about pilot safety. Training was delayed for three more months until the problem was fixed and one course was cancelled.

4.23 In 2001, three more courses were cancelled. Overall 8 of the 17 courses planned for 2000–01 were cancelled and only 3 of the 9 courses that did take place were fully loaded with the contracted number of students (16). Furthermore, courses which should have been completed in 5 to 7 months took on average about 9 to 10 months to complete (Exhibit 4.2).

Exhibit 4.2 NATO Flying Training in Canada: Basic flying training Phase IIA courses (February 2000–December 2001)

	Courses			Actual
	Planned	Cancelled		
2000	8	5		3
2001	9	3		6
Total	17	8		9

Source: National Defence

4.24 The student intake for 2002 has been reduced to 105 students overall, about 41 below the contracted course-load level, in order to match students and available training capacity.

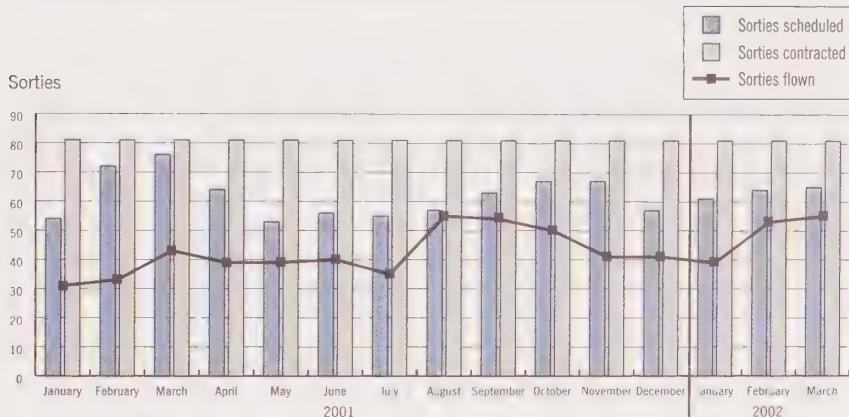
The program is not providing enough training flights per day to meet requirements

4.25 The contract states that on average 81 sorties, or training flights, could be scheduled each day by National Defence so that pilots can complete their flying training on schedule and move on to the next phase as planned. The prime contractor is responsible to provide and maintain enough aircraft and

simulators to meet the specified sortie rates. Departmental analysis showed that 17 serviceable aircraft flying five flights per day must be available to generate this rate of flying activity. However, on average only 14.5 serviceable aircraft have been available during the first two years of the program to maintain the sortie rate.

4.26 Throughout 2001 National Defence did not receive the contracted sorties to meet its demand. Since the program has been in operation, National Defence has only scheduled an average of 62 sorties per day and has only flown an average of 42 sorties per day. Although there has been some improvement, the actual number of sorties flown per day is still far below anticipated levels and therefore the backlog continues to grow (Exhibit 4.3).

Exhibit 4.3 Average sorties at the basic flying level with the Harvard II aircraft



Source: National Defence

4.27 According to the Department, aircraft availability has been an ongoing problem and has resulted in training delays and cancellations. Departmental documents indicate that most of the problems with the program over the first two years of operation relate to Harvard II aircraft availability. The Department has stated that the focus is on problem-solving rather than attributing blame and has worked closely with the prime contractor to get the most training possible under current circumstances.

National Defence needed more instructors than originally planned

4.28 In 2001, studies conducted by the flight schools in Moose Jaw and Cold Lake found that the number of instructor pilots provided by National Defence was enough to meet the initial planned staffing levels, but this initial number was not adequate to meet the training demand. The flight school in Moose Jaw has recommended increasing the number of instructors to 80. In early 2002, the Canadian Forces took action to remedy the shortage by increasing the number of instructor pilots at Moose Jaw from 60 to 71 but a decision of the final level of staffing remains outstanding.

Problems and delays in the basic flying phase of the training program have caused shortfalls and cancellations in subsequent training phases

4.29 Overall, the start-up challenges in the basic flying training phases have meant that National Defence has been unable to use the full capacity in the advanced and fighter lead-in training phases.

4.30 Advanced training Phase III. The Department identified that advanced flying training would be underused throughout 2001 since delays in basic flying training meant that no students were ready to start the advanced work.

4.31 By December 2001, National Defence had used only 8 of the 29 basic flying training Phase IIB positions it purchased and only 13 of 36 advanced Phase III slots. In 2001, Canada sold 5 Phase III slots that they could not use to the United Kingdom and Italy. On average advanced courses have been one month longer than planned and one course was cancelled in 2001.

4.32 Fighter lead-in training Phase IV. The first course was cancelled because of delays in delivering the Hawk aircraft and simulator, and preparing the course material. However, the next three courses ran with more students than originally planned to make up for the cancelled course. These students had not completed Phase IIA or Phase IIB of this training program but were either previously qualified Canadian pilots being retrained to fly the CF-18 Hornet or international students.

4.33 One critical shortfall that was identified by National Defence in March 2001 was the late delivery of the centre line fuel tank for the Hawk aircraft, an external fuel tank which increases the range of the aircraft and is required for fighter lead-in training. The fuel tanks were late being built and once they were received, the Department needed eight months to complete certification test flights. This meant that the course syllabus had to be adjusted with shorter training flights. In some cases this lack of equipment extended the course by as much as two to three weeks beyond the planned graduation date. At the end of March 2002, the centre line tank was cleared for use and has now been installed on the fleet.

4.34 By December 2001, National Defence had sold off 4 Phase IV slots to Denmark and Singapore, reducing its capacity to 20.2. National Defence used only 5 of its remaining 20.2 slots in the fighter lead-in training phase and had sold off 5 additional slots to the United Kingdom and Italy. The Canadian pilots that did graduate from Phase IV had actually received their basic training on the Tutor aircraft. As the program grows, by 2004 National Defence will have 29 Phase IV training slots, but projections to 2004 indicate that National Defence is only going to use 9 slots per year and continue to sell 6 which would leave 14 slots unused. The first Canadian pilot to be trained from Phase IIA to Phase IV through the NATO Flying Training in Canada program is scheduled to graduate in July 2002.



The CF-18 Hornet fighter aircraft.

More pilots were awaiting training and were waiting longer

4.35 The number of Canadian pilots awaiting training and the wait time for training has increased. In September 2001, 161 students were awaiting basic flying training. Behind this group were another 109 candidates completing basic officer training, second-language training, or initial degree requirements whose names would be added to the pilot training waiting list. On average, students were waiting 18 to 22 months before starting pilot training.

4.36 The Department has indicated that in July 2002, the number of Canadian pilots awaiting training had decreased to 131 and the average waiting time had fallen to 14 months. They expect this trend to continue.

4.37 National Defence has stated that the operational impact has been manageable since the system was producing as many pilots as could be accepted into the helicopter and the multi-engine aircraft school or the various operational training units. Nevertheless, departmental documents show the situation was difficult for the students facing delays and frustrating for persons involved in the program.

National Defence and PWGSC have been working on fixing problems for over two years but cannot say when problems will be resolved

4.38 National Defence and Public Works and Government Services Canada (PWGSC) have identified a number of problems with implementing the contract. They are working with the prime contractor to fix them. For example, a steering committee, co-chaired by National Defence and the prime contractor was set up to address issues like the low sortie rates. However, many of the issues identified early in the program have yet to be resolved.

4.39 The contract gives National Defence the right to sell some of its unused training capacity to other countries under a memorandum of understanding. Fees from these sales help offset some of the fixed cost to the Department. However, the contract limits the number of slots that can be sold. National Defence can only sell off 11 basic, 15 advanced and 15 fighter lead-in slots per year. The prime contractor nevertheless has waived this contractual limit during the time frame of the follow-up in order to allow National Defence to sell 20 slots to Hungary that cannot be used because of production delays in the basic flying phase. This enables the Department to recoup some of its costs.

National Defence has paid about \$65 million for unused training capacity

4.40 National Defence has not used the full amount of training purchased in any phase of the program. From the start of the program to December 2001, National Defence only used 41 percent of the planned student slots but still paid most of the anticipated cost (Exhibit 4.4).

4.41 National Defence has paid a total of \$179.5 million, which includes costs for both students and instructors, of the anticipated \$206.8 million training costs.



CC130 Hercules Transport aircraft.



CH-146 Griffon helicopter.

Exhibit 4.4 National Defence student use and cost of the four training phases

Phase	Contracted starts	Actual starts	Sold to other countries	Use (%)	Contract costs (\$ millions)	Actual costs (\$ millions)	Cost (%)
Basic (IIA)	265.6	105.4	0	40	45.4	45.7	100
Basic (IIB)	29.0	8.0	0	28	1.5	1.5	100
Advanced (III)	36.0	13.0	5	50	15.7	14.9	95
Fighter lead-in (IV)	24.2	9.0	5	58	8.3	8.1	98
Total	354.8	135.4	10	41	70.9	70.2	99
Total costs ¹					206.8	179.5	87

¹Including costs for training instructor pilots and firm fixed fees.

Source: National Defence, 2002

4.42 National Defence calculated a cost per student for the foreign participants based on the target capacity of the program. If the program had been operating at its total capacity during the first two years, National Defence would be paying the same per student as other nations. During the first two years of the program, we estimate that National Defence paid about \$65 million for training that it did not use. International participants are using all of the training slots they bought while Canada is not. This means that National Defence is paying the financial impact of inefficiencies in the program and the lack of productivity in Phase II (Exhibit 4.5).

4.43 In some cases, the minimum amount of equipment which the program needs has residual capacity that can train more students as the program expands, for example; the simulators for the Hawk aircraft. Because foreign fees were based on participants paying a fair share of equipment total capacity, until the program expands Canada is absorbing this as a business risk which the Department hopes to recover in the future. As well, Canada pre-pays the fees in advance of the training program reaching its full capacity. As of December 2001, the value of these two factors was estimated to be about \$25 million (Exhibit 4.5). However, the department feels that as the program reaches full capacity, much of this value will be recouped. The final result will depend on how much the program finally expands.

4.44 In our 1999 report on Alternative Service Delivery, we found that inflexible contract arrangements resulted in payments for unused training capacity at the Meaford Area Training Centre and the Canadian Aviation Training Centre. For example, the Meaford Area Training Centre operated under a \$40 million, five-year, fixed price contract and had used only 43 percent of its capacity. The Canadian Aviation Training Centre flying training program at Portage La Prairie, operating under a \$165 million contract, was consistently underused during the first six years of operation.

Exhibit 4.5 Costs and value of unused capacity for the NATO Flying Training in Canada program

Estimated costs based on starts and costs of the Canada Services Agreement (CSA)	(\$ millions)
Cost of training students	111
Cost of instructor pilots	15
Total	126¹
Actual level of output	(\$ millions)
Canadian student pilots trained	43
Canadian instructor pilots trained	13
Slots sold to foreign countries	5
Total	61
Value not received due to under use of the program	65^{1&2}
Actual costs of the program to Canada	(\$ millions)
Actual amount that Canada has paid to the contractor	190
Revenues from foreign countries	39
Actual costs of the program to Canada	151³
Less estimated cost of the program	(126)
Difference between estimated and actual cost of the program	25⁴

Notes: The costs reflected in this calculation do not include other operational or personnel costs incurred by National Defence, such as pilot salaries and overhead.

- ¹ The firm fixed fee used in estimating the CSA cost of training students and instructors and in calculating the value of actual output of Canadian student pilots and instructors was taken from foreign fee rates; the fee included an element of transition cost repayment.
- ² Estimated value of the Canadian training slots that were actually used and the value of slots that were sold to foreign countries since they could not be used by Canada.
- ³ Actual costs for Canada and foreign revenue does not include approximately \$18 million in variable and cost reimbursable fees, paid to the contractor, a portion of which should eventually be returned when the reconciliation process is complete.
- ⁴ Estimated value of program overhead (for example, simulator time) that was not used in the first two years of operation. Canada will continue to absorb costs for this additional capacity.

About 79 percent of the contract fees are paid regardless of how many pilots are trained

4.45 National Defence pays tuition fees to the prime contractor for the services detailed in the contract. Tuition fees are based on a schedule of payments in the contract and are composed of fixed and variable fees. About 79 percent of the total \$2.8 billion cost of the program covers overhead and equipment costs and is fixed. This amount must be paid no matter how many pilots are trained. The remaining 21 percent of the fees are variable and are based on the actual number of pilots trained and their use of the aircraft and supplies. The contract also calls for National Defence to pay transition fees to the prime contractor for work done before the program was implemented (Exhibits 4.6 and 4.7).

Exhibit 4.6 Fee structure for the NATO Flying Training in Canada program

Fixed fees

Fixed fees cover program expenses for the delivery of training services and are payable whether or not National Defence uses the contracted amount of training capacity. There are two types of fixed fees:

- **Firm fixed fees.** Firm fixed fees are used to obtain the assets such as aircraft, simulators, the provisions needed to start the program, and the initial set up costs. These fees are fixed for the duration of the program.
- **Firm fees.** Firm fees are related to the cost of running the airport at Moose Jaw, providing and maintaining all the program's infrastructure, operating the ground school and providing the simulator instruction, providing aircraft maintenance, and contractor program management, and insurance. These fees are firm for the length of the program but are adjusted for inflation and changes in currency exchange rates.

Variable fees

Variable and cost reimbursable fees are based on actual student pilot usage and are supposed to be adjusted every six months.

- **Variable fees.** Variable fees relate to actual use of the aircraft to cover the cost of consumable spare parts. A rate per flying hour has been set and this is charged based on the actual flying time of each student and instructor. Countries prepay an estimated amount which is later adjusted based on actual usage. This hourly rate has been set for the contract but is adjusted based on inflation.
- **Cost reimbursable fees.** These fees are for the actual use of petroleum and oxygen consumed during the program. Like the variable fees, participants prepay an estimated amount which is then later adjusted based on actual usage.

Transition fees

Transition fees cover the cost of transferring the operation of the base to the prime contractor and upgrading the original facilities to meet the new program requirements.

Source: National Defence, April 2002

Exhibit 4.7 Basis of payment over the 20-year contract period

Type of payment	Amount (\$ millions)	Percentage
Transition fees	46.5	1.8
Firm fixed fees	1,258.1	47.8
Firm fees	808.8	30.7
Variable fees	417.0	15.8
Cost reimbursable fees	103.6	3.9
Total	2,634.0¹	100.0

¹The contract totals \$2.8 billion including the GST.

Source: National Defence, April 2002

Firm fixed payments are unconditional and irrevocable

4.46 A non-share, not for profit corporation was established to purchase equipment for the NATO Flying Training in Canada program. It issued a \$720 million bond to obtain the capital required to buy the aircraft and simulators.



A student undergoing training in a flight simulator.

4.47 National Defence must make 40 semi-annual payments of \$31.4 million over 20 years (December 1999–June 2019) which go to the not-for-profit corporation to cover the cost of the principal and interest on these bonds and its operating costs. These payments are unconditional and irrevocable regardless of whether National Defence has the use of the aircraft. National Defence must pay even if the prime contractor is placed in default and the contract is terminated. However, should this occur, National Defence would continue to have access to the aircraft.

4.48 In December 1999, National Defence paid \$31.4 million but the aircraft were late in being delivered and, therefore, could not be used for training. National Defence cannot recover this payment despite the late delivery of the aircraft. There are provisions in the contract to ensure that National Defence retains access to the aircraft and simulators if the program is extended to provide the missed training. However, it is not clear at this point whether National Defence will have to pay some of the expenses necessary to keep the aircraft or whether this is the responsibility of the prime contractor. At the end of the program, the licence agreement states that National Defence can purchase the aircraft at fair market value.

4.49 In addition, National Defence paid the prime contractor \$15 million in firm and variable fees to meet its contractual obligations even though the first four courses had to be cancelled. The contract required that National Defence pay these fees as per the agreed schedule. The prime contractor has returned \$2.5 million of the \$15 million advance payment, the pre-paid variable components of the fees, since no students were trained.

4.50 The contract does state that training not provided can be made available at some future date. The contractor is willing to provide the training but, until it does, it has been paid \$12.5 million for training that has not yet been conducted. As well, problems with program delivery must be resolved first in order to clarify how the provisions in the contract will apply.

National Defence has not yet determined whether it has under or over paid the variable fees to the prime contractor

4.51 National Defence makes semi-annual prepayments for variable and reimbursable fees based on an estimated amount of consumption. These fees are to be adjusted at regular six month intervals based on actual use. To date, this has not been completed. National Defence and the prime contractor have yet to finalize the number of flying hours used.

4.52 National Defence has paid \$44.2 million to the prime contractor in variable and reimbursable fees of which almost \$11 million is for international participants. It has not used all of the training slots and is entitled to a refund

for these advanced payments. National Defence is still reviewing a proposal from the prime contractor for a refund of \$6.6 million for the training period from 1 January 2001 to 30 June 2001. This number remains in dispute.

4.53 The contract states that the prime contractor will provide an information management system, but this has not yet been put in place. As a result there have been delays in finalizing the reconciliation, since all records must be reviewed and accounted for manually. In September 2001, the contractor and program participants agreed to change the method of reconciliation. National Defence personnel on site in Moose Jaw who were expected to provide the input for the reconciliation were not trained in the process. Until the reconciliation of flying hours has been finalized, National Defence cannot determine whether it has under or over paid the prime contractor for these fee elements.

4.54 The agreements with the other countries involved with the NATO Flying Training in Canada program require a similar type of reconciliation at regular six month intervals. Since National Defence has not reconciled with the prime contractor, it cannot reconcile variable fees with the other nations. The result is that National Defence does not know if it has over or under charged other nations for the training that they have received.

Payments are not tied to performance

4.55 National Defence's payments under the contract are based on schedules rather than performance milestones. In the event that the prime contractor is non-compliant with the terms of the contract or where the prime contractor does not provide the specified levels of service, there are no financial incentives that can be used by National Defence. Conversely, there are no performance incentives to reward or encourage the prime contractor for exceptional service.

4.56 The only remedy available to National Defence under the contract would be to place the prime contractor in default of the contract. Short of putting the contractor in default, National Defence may not withhold payments regardless of the quality or quantity of the service provided. A National Defence study of the Alternative Service Delivery program (May 2001) concluded that for the NATO Flying Training in Canada program “the only real financial incentive [to ensure that the prime contractor provides full delivery of services] is the threat of termination of the contract.”

4.57 Although the NATO Flying Training in Canada program has been providing training to students since June 2000, the prime contractor and National Defence have never reached an agreement as to how they will measure the performance. There is still a disagreement between the parties as to what constitutes availability of the aircraft. While the prime contractor may have the required number of aircraft operational on a particular day, factors such as slow turnaround of the aircraft may cause the schedule to slip such that it results in the cancellation of sorties. These missed sorties lead to

differences between the required and actual number of sorties provided and it also raises questions as to the level of contractual compliance. This issue has been outstanding since the beginning of the program and while progress has recently been made, there is still no agreement on what constitutes successful performance by the prime contractor.

There are no mechanisms in the contract to allow for changes

4.58 Unlike many standard government contracts, this contract does not include any specific clauses describing allowable ways to change the contract. Even though it is not possible to foresee all situations that may occur, particularly given the long-term nature of the agreement, we would have expected the contract to include a clause that would outline the procedures for implementing changes. The personnel of Public Works and Government Services Canada that are involved in the management of the contract have recognized the need for a change process. They have begun work on getting an agreement to outline a procedure for changes to the contract.

4.59 In its 1999 report on *Examining the Value for Money Deals under the Private Finance Initiative*, the United Kingdom National Audit Office states that in long term contracts, “change is inevitable as the Department’s needs and priorities will alter over time.” The program does allow for some adjustment by selling training capacity between countries and drafting of memoranda of understanding, but any contract changes would involve re-negotiations.

The NATO Flying Training in Canada program did not include management practices consistent with a program of this size and risk

4.60 The government recognizes the risk associated with managing large, complex projects and has a policy in place to identify and manage them. Projects that exceed \$100 million and that are assessed as high risk are considered major crown projects. The NATO Flying Training in Canada program is a complex project valued at about \$150 million per year for 20 years. Although the NATO Flying Training in Canada program exhibits many characteristics that are common to major crown projects, it was not managed as one. Treasury Board Secretariat officials told us that, at the time, the policy was only applied to capital acquisitions while this project was considered to be a service delivery contract. It was subject to a high-level of management reporting and oversight.

4.61 Nevertheless, due to similar characteristics, we expected to find similar management practices as part of this program’s initial governance arrangements, such as an integrated risk management process and a performance measurement system. As a result of some of the difficulties realized during the first two years of implementation, Public Works and Government Service Canada officials have now brought in some of the management structures described in the Treasury Board Manual section on major crown projects.



CT-155 Hawk and CT-156 Harvard II aircrafts.

4.62 The staffing and personnel requirements for the program were based on the assumption, made in the absence of a satisfactory risk assessment, that the contract was a routine service contract, despite its large dollar value and multi-year nature. The program was not given the same level of resources that a major crown project would receive. Public Works and Government Services Canada have recently hired a person to act as the local contract officer in Moose Jaw and provide a link between the site and the project office.

The program is slow in devolving a management framework to the users

4.63 Administration of the contract and dealings with the prime contractor have been centralized in the project management office at National Defence. The program was planned so that the operation would be producing the contracted levels of service by February 2002. However, given the number of outstanding contractual issues that have not been resolved the project management office will remain in place for an additional two-year period.

4.64 The 15 Wing Moose Jaw 2002 business plan identifies the lack of a clear governance and accountability chain to allow timely decision making and effective management. Until very recently, limited information or decision-making authority have been devolved to the local training personnel, even though they are the ones who have to deal with prime contractor on a daily basis and are responsible for ensuring that the program meets the needs of the students. It also identifies constraints on their ability to plan and operate effectively, including shortfalls with the NATO Flying Training in Canada program and contract and misunderstandings with the prime contractor, such as

- the command and control structure is too complicated,
- there is not a clear understanding of responsibilities, and
- there is a lack of visibility of available resources which has resulted in cumbersome and protracted planning and decision making cycles.

4.65 Officials of National Defence and Public Works and Government Services Canada have recently started developing a governance and accountability framework as part of the NATO Flying Training in Canada program's transition to the steady state level of operations. Public Works and Government Services Canada has created a director level position to oversee the project. This has assisted in bringing some major issues to the foreground.

4.66 In an internal departmental study released in April 2002, National Defence identified many of the issues being reviewed in this audit, specifically

- no single point of accountability for the program,
- poorly defined roles and responsibilities with no person or position clearly responsible for dealing with unique governance issues,
- lack of communication between all levels and slow response to local base concerns,
- disjointed or non-existent business planning,

- lack of understanding of prime contractor responsibilities,
- a limited number of personnel who understand the terms of the NATO Flying Training in Canada contract,
- lack of skilled personnel to address contracted service problems,
- lack of succession planning, and
- poor Air Force control over the pilot production process.

4.67 The report does note some strengths of the existing program, including the strong central control and effective contract management performed by the project office, and the benefits of co-locating the technical authority, contract management and Public Works and Government Services Canada personnel within the same office.

National Defence is looking into new management arrangements for the program and lessons learned

4.68 There are various governance studies currently under development within National Defence which have identified particular concerns with the management and accountability framework. These governance studies come well into the third year of operation of the program. We expected that the project team would have had a plan to guide the transition to the steady state level of operations. Still, we are encouraged that National Defence and Public Works and Government Services Canada are addressing these issues at this time.

4.69 Given the unique structure and the creative approaches used in the provision of services under this agreement, there is increased risk for the Department but also a significant opportunity for learning and innovation. Since National Defence is looking to enter into similar agreements in the near future with the re-tendering of flight training services at Portage La Prairie and other service contracts, we expect that the lessons learned from the NATO Flying Training in Canada program would be documented for use both across the department and across government. However, formal lessons learned have not yet been recorded on this project either by National Defence or Public Works and Government Services Canada.

4.70 National Defence has recently started work on a major service delivery framework. Although this initiative is in the early stages of development, the aim is to provide a framework for large-scale contracts for the delivery of complex services. Its purpose is to provide National Defence with easy access to sources of information and set the stage to develop and use an integrated set of policies, procedures, processes, and tools.

Procurement Reform initiatives are underway but progressing slowly

4.71 In our 1999 Report, we recommended that, as part of its on-going work on procurement reform, guidelines and training be developed for large multi-year service contracts and that these should address key issues of how competition is to be addressed where long-term “partnering” would be beneficial to the government. In 1999, the Treasury Board Secretariat

indicated that they were developing a guide and a database on alternative service delivery. The Treasury Board Secretariat was also leading an interdepartmental initiative on procurement reform, which would include guidance for large, multi-year service contracts. Public Works and Government Services Canada also indicated that they would be working with the Treasury Board Secretariat in this regard.

4.72 In our December 2001 follow-up on alternative service delivery we reported that the Treasury Board Secretariat, Public Works and Government Services Canada and National Defence were working on a framework and best practices guide on long-term complex contracts. They have recently completed a paper on Strategic Direction and Best Practices in Complex Procurement. The paper documents the strategies and techniques that have been developed by Public Works and Government Services Canada and National Defence on dealing with an increasingly complex procurement environment and Treasury Board Secretariat officials said that it will be used as a guide for future procurement.

4.73 In April 2002, the Treasury Board Secretariat released a new Policy for Alternative Service Delivery. While the new policy provides some limited guidance on the governance and performance monitoring for alternative service delivery projects, it provides little direction for long term, large dollar value service arrangements. The planned alternative service delivery database is not yet operational.

4.74 Public Works and Government Services Canada is developing a training course covering complex procurement. Department officials informed us that the program has been piloted and is nearing completion of the development phase.

Conclusion and Recommendations

4.75 National Defence did not train the contracted number of student pilots for which it paid in the NATO Flying Training in Canada program. During the first two years of this program it used only 40 percent of the basic Phase IIA flying training slots, 28 percent of the basic Phase IIB training, 50 percent of the advanced Phase III training and 58 percent of the Phase IV fighter lead-in training for which it has contracted. We estimate that as of the end of December 2001, the Department had paid about \$65 million more than the value of training received. This amount is growing and will continue to grow as long as the program remains underutilized.

4.76 National Defence recognizes that it has had program management problems. Studies are underway to determine how best to manage the NATO Flying Training in Canada program but there are outstanding issues that must be resolved. Developing a solid governance arrangement is the first step in improving overall management.

4.77 Recommendation. The Department should resolve the program management issues and implement a revised management framework as a matter of urgency.

National Defence's response. The Department will continue to evolve the governance structure to meet complex needs and a steady state structure will be put in place over the next year. NATO Flying Training in Canada is a unique and complex program being managed in a constructive and evolutionary fashion. There has been significant oversight at senior management levels from two government departments during the difficult start-up period. Now responsibilities are being slowly, carefully, and appropriately delegated to various levels within both the Department and Public Works and Government Services Canada. Although there has been much discussion and some differences of opinion over the program's steady state governance structure, we maintain that identifying and then resolving issues reflects an appropriate management approach.

4.78 We have reported on underused training capacity in the past and have concerns that problems may be repeated as new contracts are negotiated. This program does not have the flexibility needed in long-term contracts to accommodate changing needs over time or the measures to ensure performance meets expectations.

4.79 Recommendation. Lessons learned from the NATO Flying Training in Canada program should be documented and reported to senior management with an action plan.

National Defence's response. The Department agrees that formal documentation of lessons learned is important. Moreover, lessons learned in the NATO Flying Training in Canada Program are already being applied in real-time to the Contracted Flying Training and Support project that is being managed within the same project office. The Department's intent is to formally document all applicable lessons this fiscal year and then promulgate them through appropriate media.

4.80 Recommendation. New contracts of a similar nature to the NATO Flying Training in Canada program that the Department enters into should ensure that

- payments are tied to performance and value received, and
- a project management framework commensurate with the risk and design of the program is in place at the outset.

National Defence's response. It is unlikely that many of the unique risk-sharing features of the NATO Flying Training in Canada contract will arise in the foreseeable future. However, as was the case with this particular contract, the Department will continue to tailor project management structures and contract terms and conditions to the unique circumstances of each contractual arrangement.

4.81 Recommendation. The Department should ensure that the services purchased through a long term service contract are aligned with the ability to use them.

National Defence's response. The Department agrees that this is an appropriate goal but disagrees with the implication that this was not the case with NATO Flying Training. We believe that the under utilization of capacity observed by the Office of the Auditor General was a reflection of the challenges inherent in starting up a new program of this magnitude and complexity. The Department remains confident that purchased training capacity will be more fully utilized in future as the program matures. In the NATO Flying Training program, the possibility of reduced training demand over time was considered and there is a contractual provision for Canada to sell off 50 percent of our "jet pilot" training capacity to other nations. Further, since the NATO Flying Training in Canada program was designed to be marketed, there is a built-in marketing infrastructure to dispose of non-required capacity should that occur.

National Defence's comments. The NATO Flying Training in Canada Program is a unique program of risk-taking and risk-sharing, which, despite some start-up hurdles that are being overcome, represents a huge leap forward in training technology and training philosophy. The Department agrees that training production in Phase II has been less than expected in the first two years, but asserts that any missed training will be made up later in the contract. The contractor has an obligation to make up all the contracted training over the life of the program and the contract is being enforced.

This program represents the best long-term option for the training of Canada's military pilots. NFTC is a success with over \$1 billion of training sold internationally. NFTC is now the recognized benchmark against which future pilot training systems are being compared.

About the Follow-Up

Objectives

This follow-up audit had two objectives:

- to examine the implementation and management of the NATO Flying Training in Canada program and to determine whether the service contract was meeting the needs of the department in an economical and efficient way, and
- to review whether the Treasury Board Secretariat and Public Works and Government Services Canada had made any progress in responding to our recommendations about procurement reform and “partnering” as stated in the 1999 chapter on alternative service delivery chapter.

Scope

Our audit focussed on the management framework and processes with respect to the NATO Flying Training in Canada program in place at National Defence, the Canadian Forces, 1 Canadian Air Division and the Canadian Aerospace Training Program office. In addition, it looked at the management and delivery of contracted services at 15 Wing, Moose Jaw, and 4 Wing, Cold Lake.

We assessed the implementation and management of the NATO Flying Training in Canada program from the time the contract was signed in May 1998 until March 2002. This represents a very short period in the overall life of the 20-year contract worth \$2.8 billion. While our audit focussed on this time period, we have made certain comments about the way the planning was done in the pre-contract stage.

We also focussed on work done to date by the Treasury Board Secretariat and Public Works and Government Services Canada on implementing our 1999 recommendations.

We did not audit the activities of the prime contractor and, as a result, do not comment on them. We do bring forward facts regarding their activities but limit our comments to the whether the actions of government officials were appropriate or not.

Criteria

We followed up on the recommendations for procurement reform made to the Treasury Board Secretariat and Public Works and Government Services Canada in our 1999 audit on alternative service delivery.

We expected that National Defence would ensure that the goods and services contracted for would be delivered as stated in the contract. We expected that National Defence would act in a way compatible with the *Financial Administration Act* to ensure that only money earned is paid.

We also expected that the Canadian Forces would be able to train the number of pilots required as indicated in the contract in a cost-effective way.

Ratings

We assessed the action of departments/agencies against our original audit recommendations (see Key Message at the beginning of the chapter). We used the following ratings:

- **Completed.** Corrective action has been fully implemented.
- **Satisfactory progress.** Progress is being made at a satisfactory pace.
- **Limited progress.** Some progress is being made, but the pace or scope is not satisfactory.
- **No progress.** No evidence of progress although the department or agency accepted the recommendation from the original audit.
- **Rejected.** The department or agency did not accept the recommendation from the original audit.
- **Unknown.** Status of progress is unknown or information is not available.

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Appendix A Excerpts from our 1999 Report, Chapter 27, National Defence—Alternative Service Delivery

Background

The NATO Flying Training in Canada (NFTC) program is a military pilot training program conducted in co-operation with industry for the Canadian Forces and other participating nations. Since it was initiated prior to the implementation of the Alternative Service Delivery program, it is not being managed under that framework.

In addition to developing a cost-effective pilot training program, NFTC is supposed to achieve a number of other benefits:

- creating employment;
- keeping the base at Moose Jaw open;
- demonstrating the capabilities of Canada's aerospace industry; and
- making a significant contribution to NATO.

Officials also informed us that National Defence had insufficient funds to renew its training aircraft fleets. One way to combat the "rust out" of the existing fleet was to implement a service contract that required annual installment payments.

In 1996, National Defence obtained Cabinet approval of a 20-year, \$2.8 billion sole-source contract with Bombardier Inc. for the program. Milit-Air Inc. will purchase the planes, flight simulators and other equipment with the proceeds of a \$720 million bond. By way of a separate agreement, Milit-Air Inc. has leased the equipment to Bombardier Inc.

About \$1.3 billion of the contract funds will acquire flight simulators and a new fleet of 42 military training aircraft to replace National Defence's existing fleet of Tutor aircraft that, according to departmental studies, could have been refurbished and made to last until the year 2015. The remaining \$1.5 billion will be used by Bombardier Inc. to maintain the aircraft and the simulators, manage the base in Moose Jaw, and provide ground school instructors. National Defence will provide the overall management of the NFTC program and the flight instructors. The first flight instructors were to start training in the third quarter of 1999.

The contract was awarded without competition

We found that the decision to award the contract without following the normal bid solicitation process for government contracting was not adequately justified.

The profit mark-up in the NFTC contract is not consistent with current guidelines or supported by adequate analysis of contractor's risks

In the event of a sole-source contract, Public Works and Government Services Canada's profit policy and guidelines are supposed to establish the level of profit awarded to a contractor. Public Works and Government Services Canada officials could not provide us with the detailed calculations and risk assessments they used to arrive at the profit markup included in the contract. According to officials of both departments, the NFTC program will provide the government with valuable benefits through the transfer of significant risks to the contractor over the next 20 years. Although departmental documents show the departments' estimate of contractor risk to be between \$360 million and \$460 million, they had no calculations to support this. They estimate that the risk exposure to the contractor relates to the following:

- the quantity and adequacy of the aircraft required for the program;
- future increases in aircraft and infrastructure operating costs;
- failure to obtain the expected number of foreign participants; and
- environmental risks.

We expected that the two departments would comprehensively assess the risks being transferred to the contractor and estimate the value to the Crown of that risk transfer. We were unable to establish that this had been done.

Public Works and Government Services Canada informed us that it hired an outside consultant to review the risk elements in this program. We note that the consultant could not perform a comprehensive review of all the risks since, at the time, the agreements had not been finalized. Therefore, in our opinion the review was not sufficient to provide assurance that there is an equitable sharing of risks under the contract.

In response to our audit, National Defence officials prepared a risk summary in late September 1999 that attempted to quantify the value of the risks transferred to the contractor. While this summary clearly identified the major risks, it did not assess their probability of occurrence and their overall financial impact. As a result, it is not possible to establish the correlation between the value of the risks and the profit markup that was negotiated in the NFTC contract.

It should be noted that if the NFTC program expands beyond its current level, the Department is committed to paying for the additional aircraft and equipment that will be required. These costs would be recovered from the additional revenues from foreign participants. According to National Defence officials, if the program were to expand beyond its current capacity there would be significant financial benefits to both the Crown and the contractor, because the fixed costs of the program would be shared among a greater number of participants.

The chosen financing arrangements increase some risks

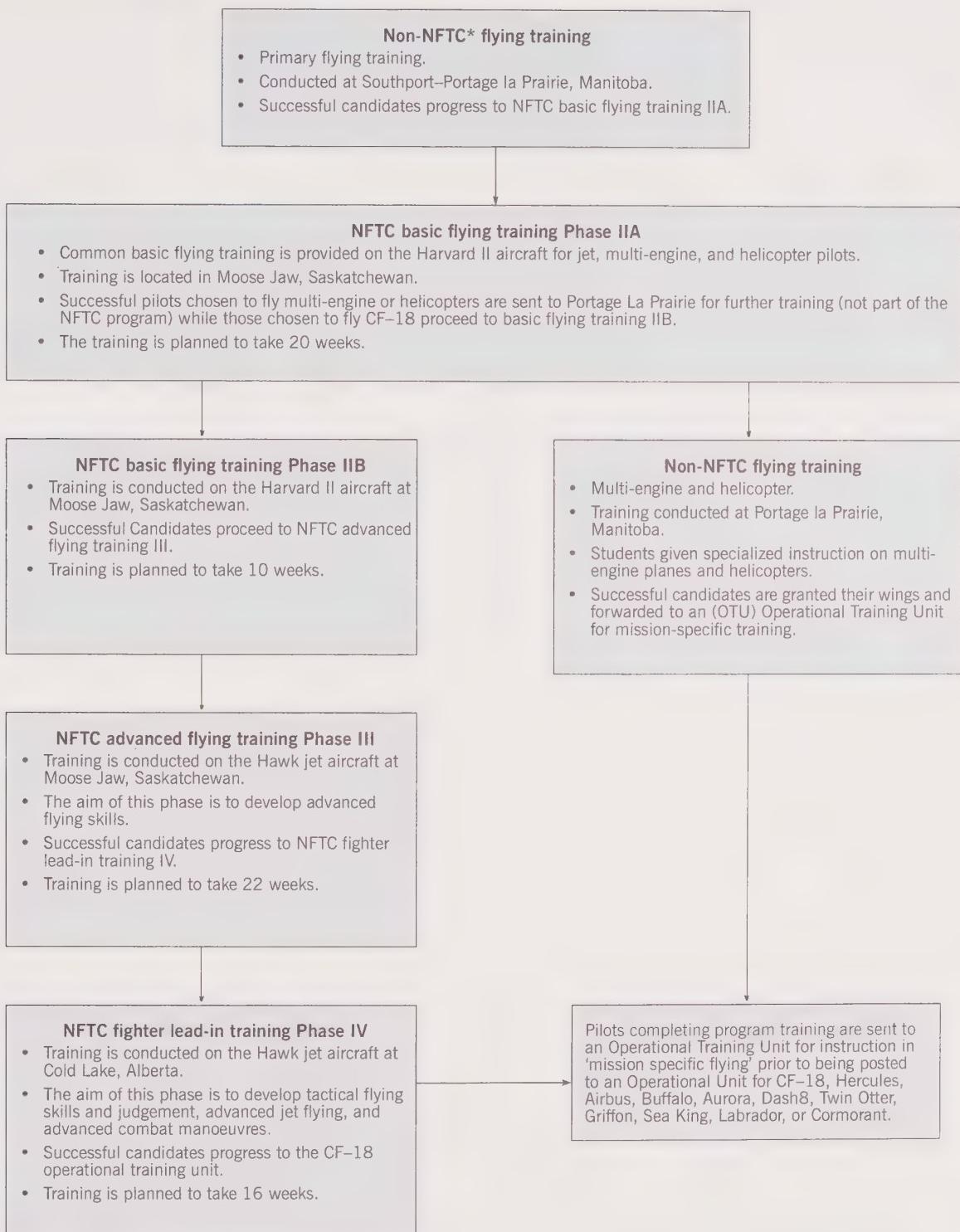
The NFTC program is the first example of “innovative” financing for a major National Defence capital project.

The Department of Finance had suggested in late May 1997 that the Department consider purchasing the equipment directly and supplying it to the contractor as government-supplied equipment. In response, National Defence prepared an analysis of industry financing compared with government financing of the NFTC assets. We found that this analysis was not complete and that it was performed at a point when it was impractical to make any changes to the financing arrangements.

The unique financing arrangements are also causing problems with the acquisition of the Raytheon T6-A aircraft and related technical data. The U.S. Department of State has serious concerns about a private company, Milit-Air Inc., owning military aircraft. It is concerned about Canada's ability to control the transfer of information and the use and resale of aircraft owned by Milit-Air Inc. The two governments have been working on a solution, and it is expected that the Canadian government will be providing the necessary assurances shortly. However, the issue is not yet completely resolved.

The fact that these additional risks are present leads us to believe that a more rigorous assessment of alternatives for acquiring the assets ought to have been prepared, and earlier in the process.

Appendix B National Defence's pilot training process



*NFTC—NATO Flying Training in Canada

Appendix C NATO Flying Training in Canada program milestones

Year	Milestones
1992	NATO requirement identified for a common NATO fast jet pilot training program.
1992–1994	National Defence begins analyzing and defining future pilot training options.
1994	Bombardier submits unsolicited proposal to National Defence for fast jet pilot training.
December 1994	Bombardier submits a business case and National Defence adds NATO Flying Training in Canada (NFTC) as an option.
May 1995	Canada submits proposal to host the NFTC program to NATO.
January 1996	Bombardier delivers an industry proposal to National Defence. National Defence compares the options and identifies NFTC as the preferred option.
June 1996	National Defence gets approval to enter into a 20 year \$2.8 billion sole source contract with Bombardier to provide support to NFTC. Approval was given on the condition that international nations participate as a means of reducing costs for Canada. Canadian proposal to NATO nations.
April 1997	NFTC launch and negotiations.
May 1998	Services agreement in support of military pilot training signed between Bombardier and Public Works and Government Services Canada (on behalf of Canada). Moose Jaw and Cold Lake transition begins.
September 1998	Memorandum of understanding (MOU) signed between Canada and Denmark for participation in the program.
July 1999	MOU signed between Canada and the U.K. for participation in the program.
December 1999	Canada makes the first of 40 semi-annual payments of \$32 million for use of equipment plus first instalment of firm, variable and cost reimbursable fees. Planned start date for Phase II instructor pilot training and course validation delayed due to late delivery of Harvard II aircraft.
February 2000	First four basic flying training Phase IIA courses cancelled.
March 2000	MOU signed between Canada and Italy for participation in the program. MOU signed between Canada and Singapore for participation in the program.
June 2000	Basic flying training Phase IIA courses begin.
December 2000	Advanced Phase III flying training courses begin.
March 2002	Fighter lead in Phase IV flying training courses begin. MOU signed between Canada and Hungary for participation in the program.

Chapter

5

Industry Canada

Management of the Canada Small
Business Financing Program

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Industry Canada

Management of the Canada Small Business Financing Program

Assistant Auditor General: Richard Flageole
Responsible Auditors: Richard Gaudreau and Chantal Thibaudeau

Key Message

5.1 Industry Canada has made progress in addressing some of the issues raised in our 1997 Report, as outlined in the table below. We are still concerned about the ability of the Department to achieve its cost recovery objective for this Program. At 31 March 2001, losses on loans guaranteed between 1995 and 1999 amounted to \$155 million, and we estimate that they will reach at least \$200 million. There are also indications that disbursements on claims will exceed revenues for loans guaranteed after 1999. Industry Canada must develop a better model to forecast the financial performance of the Program. Parliament must also be informed on a timely basis of any anticipated losses.

ORIGINAL ISSUES	PROGRESS	RATING*
Measuring program performance <p>5.2 The Department should clearly define the expected results of the Program and obtain relevant information on the Program's results.</p> <p>5.3 The Department should ensure that the <i>Small Business Loans Act</i> eligibility requirements and conditions lead to the results expected for the Program.</p>	The Department developed a program evaluation framework in 1998 and used it to guide its data collection activities. However, it still needs to define criteria for assessing the Program's success, including a target range for incrementality. Program eligibility criteria and conditions were examined as part of the review of the <i>Small Business Loans Act</i> in 1998 and changes were made to Program conditions. The impact of these changes on the Program's expected results, including cost recovery, will need to be carefully assessed.	LIMITED PROGRESS
Cost recovery <p>5.4 We expressed uncertainty about whether full cost recovery would be achieved. We concluded that the dual objectives of increasing access to financing while recovering the costs of the Program called for careful analysis. The Department should carefully monitor the performance of the loans portfolio and improve systems and practices for forecasting the future performance of the Program.</p>	The Department considers that it will not meet its cost recovery objective for loans guaranteed between 1995 and 1999. We estimate that disbursements on claims for that period will exceed revenues by at least \$200 million. There are also indications that the Department may not meet its cost recovery objective for loans guaranteed after 1999. The Department now has good information on portfolio risks. This provides a basis for monitoring the financial performance of the Program. The Department has yet to adjust its claims forecasting model.	LIMITED PROGRESS

*Possible ratings are: completed, satisfactory progress, limited progress, no progress, rejected, unknown. (See About the Follow-Up for an explanation of the ratings.)

ORIGINAL ISSUES	PROGRESS	RATING*
<p>Improving the Program's delivery</p> <p>5.5 The Department should ensure that lenders have exercised due care in making loans and have complied with the Small Business Loans Act and Regulations.</p> <p>5.6 The Department should assess the need to limit access to loans by related entities to the maximum amount allowed and, if the need exists, seek amendment to the <i>Small Business Loans Act</i>.</p> <p>5.7 The Department should take the necessary measures to reduce the amount of interest paid on claims made by lending institutions.</p>	<p>Legislation was amended to reinforce the principle of due diligence by financial institutions and to give the Minister authority to conduct compliance audits. The Department is working on an audit strategy, and it plans to start conducting audits in the fall of 2002.</p> <p>The <i>Canada Small Business Financing Act</i> clarifies this matter, and the Department now requires the borrower to declare that it has not exceeded the maximum loan limit.</p> <p>The Department has introduced two main measures: the interim payment of a claim before the borrower's personal collateral has been collected and the non-payment of interest beyond 24 months following the date of the loan default.</p>	<p>SATISFACTORY PROGRESS</p> <p>COMPLETED</p> <p>COMPLETED</p>
<p>Accountability to Parliament</p> <p>5.8 The Department should ensure that parliamentarians are provided with the necessary information to assess the extent to which the Program is managed efficiently and is achieving its objectives.</p> <p>5.9 The Department should report information on job creation that reflects actual results attributable to the Program.</p>	<p>The Department has improved information on cost recovery but it provides limited information on the expected financial performance of the Program and efficiency of operations.</p> <p>The Department has clarified the meaning and indicated some limitations of the information provided on the number of jobs to be created by the Program.</p>	<p>LIMITED PROGRESS</p> <p>SATISFACTORY PROGRESS</p>

NEW ISSUE

5.10 Since 1998 there has been a significant decrease in the number of loans made through the Program. The Department should continue its efforts to determine the reasons for the drop and how they affect the rationale for the Program and its parameters. It should also investigate the concerns that financial institutions have expressed about the administrative requirements of the Program.

*Possible ratings are: completed, satisfactory progress, limited progress, no progress, rejected, unknown. (See About the Follow-Up for an explanation of the ratings.)

Industry Canada has responded. The Department has generally agreed with our conclusions. Its response, presented at the end of the chapter, elaborates on the action it intends to take to address both the issues we raise in the report and our recommendation.

Introduction

5.11 In Chapter 29 of our December 1997 Report, we reported on Industry Canada's management of the Small Business Loans Program, governed at the time by the *Small Business Loans Act*.

5.12 In that chapter, we said that Industry Canada needed to define more clearly the results it expected the Program to achieve and better measure its performance toward achieving them. We questioned whether the Department could meet its objective of full cost recovery, given the fee structure and loss-sharing ratio then in effect. We emphasized the need to carefully analyze the dual objective of making loans more accessible while recovering the costs of the Program. We stressed that Industry Canada needed tighter controls to ensure that lenders exercised due diligence in granting loans. We said it should take appropriate steps to reduce the amounts it was paying to financial institutions in interest on their claims. Finally, we noted that Parliament needed better performance information on the Program.

Events since our audit of 1997

5.13 In 1998, the Standing Committee on Public Accounts held hearings on our report and made recommendations similar to ours in its own report to Parliament. The House of Commons Standing Committee on Industry and the Standing Senate Committee on Banking, Trade and Commerce each held public hearings on the Program that same year to better understand the financing needs of Canadian small and medium-sized enterprises (SMEs).

5.14 These reviews led to the *Canada Small Business Financing Act*, which came into force on 1 April 1999 and replaced the Small Business Loans Program with the Canada Small Business Financing Program. The new legislation maintains the fundamental objective of the Program and its key parameters (percentage guaranteed by the government, type and size of business, and registration and administrative fees). It also provides for a mandatory comprehensive review of the Program every five years; the next review report must be tabled in Parliament in 2004–05. It reinforces the principle by which financial institutions must show due diligence in managing loans registered under the Program, and it gives the Minister authority to conduct on-site audits to verify their compliance. Exhibit 5.1 provides additional information on the history of the Program. Exhibit 5.2 provides data on the value of loans guaranteed over the past 10 years.

The program today

5.15 The purpose of the Canada Small Business Financing Program is to increase the availability of financing to establish, expand, modernize, and improve small business enterprises. Industry Canada is committed to compensate financial institutions for 85 percent of their eligible losses on loans they have made under the Program. Any business (except for religious, not-for-profit, and farming organizations) with gross annual revenues below \$5 million is eligible for financing to a maximum of \$250,000. The maximum

repayment period for a loan under the Program is 10 years. A lender is allowed to obtain a personal or a corporate guarantee from the borrower, although a personal guarantee cannot exceed 25 percent of the loan amount. Businesses can use the loans to finance real property and buildings, leasehold improvements, or equipment. Exhibits 5.3 and 5.4 show loans guaranteed under the Program in 2000–01, by industry sector and by area of use.

Exhibit 5.1 Program history

From 1961 until 1993, the Small Business Loans Program was stable and relatively modest. Between 1990 and 1993, the average annual value of loans guaranteed under the Program was \$438 million, and the Department paid financial institutions an average of \$41 million a year in claims and interest for losses on loans they had made under the Program.

In 1993, a number of changes to the *Small Business Loans Act* broadened the eligibility criteria for the Program by raising from \$2 million to \$5 million the maximum annual revenue of a business defined as “small business.” Also raised were the maximum loan amount, the portion of a loan that the Department would guarantee, the percentage of a project’s total funding allowable under the Program, and the registration fees.

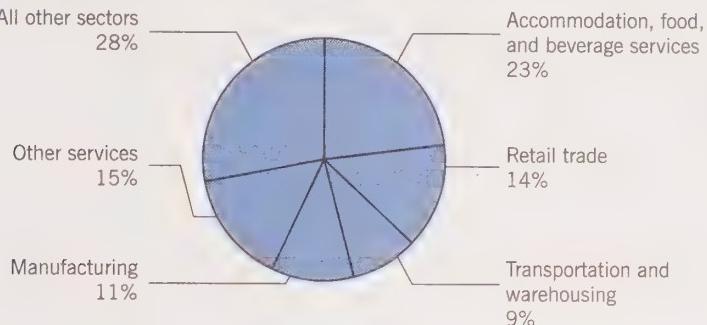
The result was more loans, for higher amounts. The annual value of loans guaranteed under the Program rose from \$502 million in 1992–93 to \$2.5 billion in 1993–94 and \$4.4 billion in 1994–95. This unprecedented increase created concern about the financial consequences for the government: very likely, it would see a corresponding increase in claims by financial institutions for losses. In fact, by 31 March 2002, loans guaranteed between 1 April 1993 and 31 March 1995 had generated \$527 million in claims, which the government paid. We estimate that the actual loss suffered by the government was \$388 million after taking into account the registration fees it had received for the same loans.

That concern led Parliament in 1995 to tighten certain of the 1993 amendments to the Act that had broadened eligibility for the Program, and the Program’s major parameters have remained the same since then.

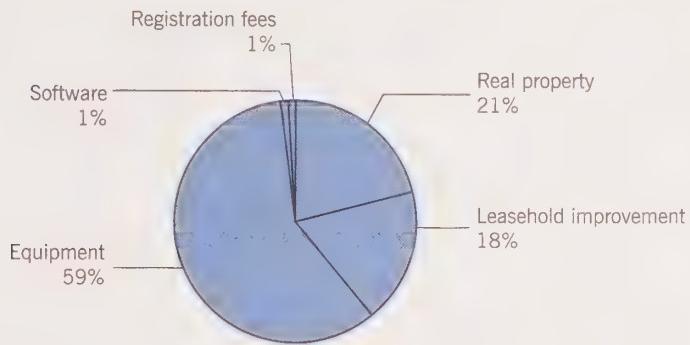
Exhibit 5.2 Annual value of loans guaranteed from 1990–91 to 2000–01



Source: Industry Canada

Exhibit 5.3 Loans guaranteed through the Program to industry sectors in 2000–01

Source: Industry Canada

Exhibit 5.4 Areas of use of loans guaranteed through the Program in 2000–01

Source: Industry Canada

5.16 Industry Canada delivers the Program in partnership with financial institutions. A small business applies to an institution for financing; the institution assesses the application and assumes responsibility for deciding whether or not to grant the loan. If it does, it makes the loan directly to the applicant. It is responsible for all aspects of credit management.

5.17 When a financial institution determines that a loan meets the conditions of the Program, it submits it to the Department for registration as a guaranteed loan with a 2 percent registration fee it has collected from the borrower. An annual administration fee of 1.25 percent based on the average monthly loan balance is also charged and turned over to the Department. Lenders cannot charge more than 3 percent above the prime lending rate on floating-rate loans or more than 3 percent above the residential mortgage rate on fixed-rate loans; the interest charges include the 1.25 percent administration fee. If the borrower defaults, the financial institution must collect the security pledged against the loan before it can submit a claim to Industry Canada.

5.18 The Small Business Loans Administration Directorate of the Department's Operations Sector administers the Program under the provisions of the Act and its Regulations. The Directorate has an annual operating budget of \$3 million and a staff of 30 people, most of them assigned to claims processing. The Small Business Policy Branch, part of the Department's Policy Sector, provides strategic direction for the financing of small businesses.

5.19 In 2000–01, more than 14,000 loans with a value of about \$1.2 billion were registered under the Program. The average amount of each loan was about \$80,000. In the same period, the Department paid out about \$171 million in claims for loans guaranteed under the previous and the new legislation.

Focus of the follow-up

5.20 Our follow-up looked at Industry Canada's management of the Canada Small Business Financing Program and its administration of the *Canada Small Business Financing Act* and the *Small Business Loans Act*, which guide the Program. The purpose of our follow-up was to assess Industry Canada's progress in addressing the issues raised in our 1997 audit and to determine whether the Department now has in place the systems and practices to manage the Program efficiently, cost-effectively, and in accordance with legislative authority. Our follow-up scope and criteria are set out in About the Follow-Up at the end of the chapter.

Observations and Recommendations

Measuring program performance

5.21 According to Industry Canada, investment stimulates economic growth and innovation and helps ensure sustainable development; one of the Department's strategic objectives is to promote investment in Canada. It views limited access to capital as a barrier to investment by small and medium-sized enterprises (SMEs).

5.22 The intent of the Canada Small Business Financing Program is to encourage financial institutions to give small businesses greater access to financing for their creation, expansion, modernization, and improvement.

5.23 Our 1997 report recommended that Industry Canada clearly define the results it expected the Program to deliver and obtain relevant information on the results it achieved. We also stressed the need to ensure that the Program's eligibility requirements and conditions foster the achievement of the desired results. After examining our report in 1998, the Standing Committee on Public Accounts recommended that the government clearly define its expectations for the Program's performance, set clear targets for incrementality, establish appropriate indicators of performance, and ensure that the Program met the financing needs of small businesses.

A performance evaluation framework is in place

5.24 In 1998, the Department developed a performance evaluation framework for the Program. This evaluation framework, developed as part of the review of the *Small Business Loans Act*, identifies evaluation issues, performance indicators, data collection requirements, and options for the future evaluation of the Program. Issues to be evaluated are the relevance of increased access to financing for small business and the need for federal involvement; the level of incrementality achieved by the Program; progress toward cost recovery; reliability of claims forecasting; the Program's impact on job creation, maintenance, and displacement; awareness of the Program; and the performance of borrowers.

Data collection on the Program's performance has begun

5.25 In 1998 the Task Force on the Future of the Canadian Financial Services Sector (MacKay Task Force) found that the development of a public policy on the financing of small and medium enterprises (SMEs) was hindered by a lack of data. It recommended that the government make a concerted effort to improve the quality and quantity of information on SME financing. In response, Industry Canada, Statistics Canada, and the Department of Finance Canada launched the SME Financing Data Initiative. The Department has carried out six studies under the initiative to better understand the issue of SME financing and plans to continue studying it over the next few years. The studies provide valuable information on the relevance of the program.

5.26 To measure the effectiveness of the Program, the Department has conducted a survey of businesses to assess the impact on both the job creation and the performance of businesses that had received loans. It also surveyed SMEs to better understand their experience in looking for and obtaining financing and to determine how much they knew about the Program.

Still a need to define criteria for assessing the Program's success

5.27 In 1997, we indicated that it was important for the Department to define the level of incrementality it expected the Program to achieve, and adjust the parameters of the Program accordingly; the Standing Committee on Public Accounts made the same recommendations in 1998. (The level of incrementality is the extent to which businesses obtain financing through the Program that otherwise would not be available to them or would be available on less favourable terms.) The evaluation framework developed by the Department still does not specify the rate of incrementality that would represent success. The latest related study by the Department, in 1996, found that 54 percent of the loans guaranteed through the Program could not have been obtained without it.

5.28 The Department is presently reviewing its 1998 evaluation framework to take into account Treasury Board Secretariat's new policy on measurement of results. The review is intended to lead to a new results-based management and accountability framework. According to the Department, the new

framework will be in place by the fall of 2002 and will guide the evaluation of the Program in 2004.

Cost recovery

The Department is unlikely to achieve its cost recovery objective

5.29 Under the cost recovery policy adopted in 1995, the Department aims to balance the Program's costs (claims and interest it pays to financial institutions) with its revenues (registration and administration fees). The Program costs in this equation exclude the Department's salary and operating expenses for the Program.

5.30 In 1997, we questioned whether the Department could achieve cost recovery given the fee structure and loss-sharing ratio then in effect. In this follow-up, we reviewed the Department's data and reports on the Program's financial results for loans guaranteed between April 1995 and March 1999 under the *Small Business Loans Act* and between April 1999 and March 2002 under the *Canada Small Business Financing Act*.

5.31 Financial performance—1995 to 1999. In its 2000–01 annual report on the Program, the Department stated that it does not expect to meet its cost recovery goal for loans guaranteed between 1 April 1995 and 31 March 1999. It considers that cost recovery can be achieved only if paid claims do not exceed 6.25 percent of the value of guaranteed loans, and it has indicated that claims to be paid on loans guaranteed during that period will amount to 9 percent of the total value of the loans. At the end of March 2001, this represented losses of \$155.8 million. We estimate that these losses will exceed \$200 million over the life of the loans.

5.32 Financial performance—1999 to 2002. When it reviewed the Program in 1998, the Department considered that no changes were needed in the Program's key parameters (percentage guaranteed by the government, size and type of business, and registration and administrative fees structure). It did recommend changes, however, that it believed would allow for a better balance between revenues and expenditures. Among the changes were an obligation for lenders to exercise the same diligence as they do with their conventional loans; the possibility for the Department to conduct on-site audits of lenders' files; new provisions to prevent loan splitting; interim payment of claims to reduce interest costs; and a broadening of the rules on security pledged against loans made under the Program. These recommended changes were incorporated in the revised legislation.

5.33 A study conducted for the Department in November 2001 on payment defaults and claims for loans registered from 1995 to 1998 identified the sectors with the highest loss rates. The rate for the accommodation, food, and beverage industry was 11.6 percent, for leasehold improvements 9.7 percent, and for franchising 9.6 percent. The study also showed that loans of \$100,000 or more also carried a higher loss rate, at 14.4 percent.

5.34 Our review of the distribution of loans guaranteed since 1999 shows that with one exception, the same sectors represent an increasing share of the portfolio, suggesting that the overall level of risk is increasing as well:

- The proportion of total loan value that went to the accommodation, food, and beverage industry increased from 13.1 percent to 22.7 percent.
- The proportion of total loan value that went to the leasehold improvements sector increased from 14.2 percent to 17.5 percent.
- Loans of \$100,000 or more increased from 21.6 percent to 27.8 percent of the total number of loans.

The exception is the franchising sector, whose share of the total loan value has decreased from 12 percent to 11 percent over the same period.

5.35 Our analysis of claims paid to date on loans guaranteed in 1999–2000 suggests that there is no downward trend in the loss rate. Claims paid on loans registered in 1999–2000 amount to 3 percent of the value of the loans. This three-year loss rate is similar to three-year loss rates observed since 1995–96. We believe it is unlikely that the rate of claims paid will decline enough to allow for cost recovery. The Department is still faced with the difficult objective of achieving cost recovery while maintaining an acceptable rate of incrementality.

Monitoring capacity is improving; forecasting methods need to be enhanced

5.36 In 1997, we recommended that to improve its chances of meeting its cost recovery objective, Industry Canada monitor changes in the performance of its loan portfolio more closely and consider any new economic factors that could prevent cost recovery. We also recommended that it enhance the systems and practices it used in forecasting how well the Program would perform. We believed that the Department needed to analyze its loan guarantee portfolio regularly for risks inherent in characteristics such as industry sector, type of loan, region, and age of the business.

5.37 The November 2001 study of payment defaults and claims for loans registered from 1995 to 1998 allowed the Department to understand better the factors contributing to increased risk in its loan portfolio and to determine the actual financial performance of these loans. The Department had last carried out such a study in March 1997. This provides a basis for future regular monitoring of the Program's financial performance. Also, the Department's annual report on the Program now includes the level of claims paid, by industry sector; and the net cost of the program, by year in which the loans were made.

5.38 The Department has had a model to forecast the financial performance of the loan portfolio since 1994; responding to our 1997 recommendation, it said it would revise the model. In this follow-up, we observed that the Department has not made the changes that would allow its forecasting model to better reflect factors that could impact the level of claims. We still believe that a better forecasting model would give the Department an effective tool to ensure prudent management of public funds and inform Parliament of anticipated shortfalls.

Improving the Program's delivery

Tools being developed to monitor compliance with the Act and Regulations

5.39 In 1997 we examined files of financial institutions on loans made under the *Small Business Loans Act*, and we observed that they did not always contain evidence that the Program rules had been followed. We stressed that the Department needed mechanisms to ensure that financial institutions were exercising due care when they issued loans.

5.40 The changes made to the legislation in 1999 reinforce the principle that financial institutions must exercise due diligence in making and administering loans under the Program. The Regulations now require that lenders apply the same procedures to these loans as they would to their conventional loans.

5.41 The new Act also gives the Minister the authority to audit for compliance with the Act and Regulations, including the due diligence and documentation requirements. The Department is finalizing an audit strategy for on-site review of practices used by financial institutions. It has not yet started conducting audits; it has informed us that it will begin in the fall of 2002.

The issue of related entities has been clarified

5.42 We noted in 1997 a number of separate corporations with substantially common ownership had obtained among them more than \$250,000 in loans to operate the same business. We said that situations like this increased credit risk and could cause higher losses in the loan portfolio. We also pointed out that the Act contained no provisions to prevent a group of related entities from obtaining loans that totalled more than the maximum allowed by the Program. We recommended that Industry Canada tighten its controls and examine the possibility of limiting to \$250,000 the maximum guaranteed loans to related entities.

5.43 The 1999 Act and Regulations define related borrowers more precisely and limit to \$250,000 the financing to which related entities can have access. Furthermore, the Department now asks borrowers to declare on the loan registration form that they are not exceeding the allowable limit on financing. Also, the action plan for compliance audits of financial institutions includes audit procedures aimed at loans between persons with a non-arm's-length relationship.

The claims-processing procedure is effective

5.44 The Department processed 3,748 claims in 2001–02. The average time it took to process a claim was 35 days from the receipt of all required information; over the last five years, this has fluctuated between 28 and 45 days. These data reflect claims related to loans guaranteed under both the *Small Business Loans Act* and the *Canada Small Business Financing Act*.

5.45 The Small Business Loans Administration Directorate uses a number of tools to ensure that staff assigned to claims processing follow uniform practices. It developed a procedures guide; and it documented its policies on the interpretation of the Act and Regulations and its decisions on new issues

in claims processing. It has also adopted an appeal mechanism to review decisions that lenders dispute. We noted that staff assigned to claims processing have the needed experience and expertise to process claims.

5.46 The claims-processing procedure includes a number of steps; the most important is analyzing the information that the financial institution provided to justify the amount of its claim. In this step, the Department verifies whether the loan met the conditions of the Program (size of the business, activity, type of asset financed, interest rate, and terms of the loan) and whether the financial institution collected the collateral that secured the loan before submitting its claim.

5.47 Our examination of a sample of claims processed in 2001–02 showed that the Department uses a valid procedure to ensure that claims are properly justified.

The Department has reduced the interest paid to lenders

5.48 A lender has up to three years to claim its losses on a defaulted loan. During that time, it must take all possible measures to collect on the loan before submitting a claim. The claim is to include the eligible proportion of the unpaid principal as well as interest on that amount. The \$144 million in claims paid in 2001–02 included interest of \$24 million and, on average, lenders submitted their claims 19 months after the borrower had defaulted on the loan. These data reflect claims related to loans made under both the *Small Business Loans Act* and the *Canada Small Business Financing Act*.

5.49 In 1997 we recommended that the Department take appropriate steps to reduce the total amount it was paying in interest on claims submitted by financial institutions.

5.50 The Regulations to the 1999 Act introduced a provision allowing a lender to submit an interim claim before having collected a borrower's personal collateral, but after collecting on all other guarantees. In 2001–02, interim claims represented 23 percent of settled claims.

5.51 The Regulations to the 1999 Act also shortened the period for which the government will pay interest to the lender. While lenders still have three years after a default to submit their claims, the Department no longer pays interest to the lender on that whole period. As it did before 1999, it pays for the first year a rate of interest equal to the rate at which the loan was issued, and for the second year it pays half that rate. As of 1999, however, it pays no interest for the third year. We estimate that in 2001–02 this measure contributed to a reduction of \$800,000 in interest paid.

5.52 Whether financial institutions can collect on loan security and submit their claims sooner depends on general economic trends as well as conditions in the local real estate and property trade-in markets. The realization of secured assets takes time, but it is essential; in 2001–02 the net amount realized in relation to claims settled in that year was \$46 million. Current rules governing interest payments aim to strike a balance between the

amount of interest paid and the due diligence exercised by financial institutions in realizing secured assets.

Accountability to Parliament

Information provided to Parliament still needs improvement

5.53 We noted in 1997 that Parliament was receiving mainly operational information on the Program and not the kind of information needed to assess its performance. The Department was providing no information on the extent to which it had achieved its cost recovery and incrementality objectives. We also questioned the reliability of its information on the job creation impact of the Program.

5.54 In this follow-up, we reviewed the Department's annual reports on the Program for the last five years. We noted that they now include better information on the achievement of the cost recovery objective. The Department has also clarified the meaning of the data it provides on the number of jobs created by the Program and has indicated some of the data limitations. We also saw more information on Program activities.

5.55 Cost recovery. The annual report presents financial information on revenues and on claims expenditures. However, it provides no information on the Program's expected financial performance. For example, the Department states that it will not achieve its cost recovery goal for loans guaranteed between 1995 and 1999. It gives no specific indication of the possibility of recovering its costs for loans guaranteed from 1999 on, because it believes it does not have enough data on claims for this period.

5.56 Job creation. The Department now provides information on the expected number of jobs to be created, by industry sector and by business size. The information is presented with the caveat that it comes from borrowers' projections of the number of jobs they expect to create. In 2002, Industry Canada commissioned a survey of firms that had obtained loans under the Program between January and July 2000. It asked them to confirm how many jobs they had created; most confirmed their initial estimates. The Department plans to repeat the survey at regular intervals.

5.57 The Department still does not indicate clearly all the limitations of its data on job creation. The information does not account explicitly for potential job displacement due to the creation of a new business or the modernization of an existing business, or for the fact that a number of businesses that receive funding under the Program also obtain funding from other sources.

5.58 Efficiency. The annual report contains little information on the administrative efficiency of the Program's operations. For example, it does not provide data on the cost and the length of time required to process a claim, the number of claims denied, and the number of appeals on rejected claims and their results.

5.59 The Department has informed us that it remains committed to improving the information it provides to Parliament in its annual report, particularly on the expected financial performance of the Program.

New issue of importance**The decrease in the number of loans warrants further study**

5.60 The number of loans made through the Program has dropped significantly since 1998. To understand the reasons, the Department commissioned a study in the form of a survey of financial institutions; the study report was released in January 2002. The financial institutions see as the major reason for the decline the amount of administrative work involved in processing the loans and the Department's growing tendency to deny claims. During our follow-up, we met with representatives of major financial institutions to obtain their views on the administration of the Program and to understand how they deliver it. They reiterated to us their concern about the administrative burden of the Program.

5.61 Other reasons mentioned in the study were the lack of profit on these loans, a greater choice of financing options for borrowers, the possibilities for borrowers to get loans with better conditions, an increase in financing through internal means, and competition among lending institutions. The Department has not yet validated the conclusions of this study.

5.62 The study provided the Department with interesting leads to explain the decline in loans under the Program. However, its scope and methodological limitations affected the depth of analysis and the reliability of conclusions.

5.63 Recommendation. Industry Canada should

- thoroughly examine the reasons for the decline in the number of loans and assess their impact on the rationale and the design of the Program, and
- investigate the concerns of financial institutions about the administrative requirements of the Program.

Industry Canada's response. The Department has responded to the chapter overall; its response follows the Conclusion.

Conclusion

5.64 Industry Canada spent considerable time and effort in 1998 to review the *Small Business Loans Act*. The Act was subsequently replaced in 1999 by the *Canada Small Business Financing Act*. Some of the issues we had raised in our 1997 Report were addressed directly in the new Act with the inclusion of the due diligence principle in the legislation, clarification of the concept of related entities, and inclusion of measures to reduce interest paid on claims submitted by lenders.

5.65 The Department has taken measures to improve the management of the Program. It developed an evaluation framework and has begun to collect data to measure the Program's performance. It has yet to define criteria for assessing the Program's success. We are still concerned about the Department's ability to achieve the cost recovery objective of the Program. It has improved its capacity to monitor the Program's financial performance but has yet to enhance its claims forecasting model.

5.66 The Department has also made progress in its accountability to Parliament. It now provides information on the Program's revenues and expenditures but not on its expected financial performance. The Department provides little information on the limitations of its job creation data and the efficiency of its operations.

5.67 The decline in the number of loans under the Program is a new issue the Department needs to monitor. It needs to understand the reasons for this drop and the impact on the rationale and design of the Program.

Industry Canada's response and comments. As recognized by the Auditor General in the chapter's conclusion, Industry Canada has made considerable progress with respect to issues raised in the Auditor General's 1997 Report. In addition, the Department expects that further progress will be achieved in the fall of 2002 with the implementation of its audit plan and a new results-based management and accountability framework, which will further define performance indicators for the Program.

Industry Canada acknowledges that continuous monitoring of the Program is essential to achieving its objectives of incrementality and cost recovery. Concerning cost recovery, Industry Canada forecast in its 2000–01 Annual Report that over the life of the loans made in 1995 to 1999, disbursements on claims will exceed revenues received. The development of an improved forecasting model is a high priority and has been since the introduction of the new Act. Having collected program data for three years, consistent with the new Act, Industry Canada is now positioned to adjust its forecasting model. In addition, Industry Canada will be reviewing these data to determine whether to recommend any changes to the Program to meet the cost recovery objective.

Finally, Industry Canada will, as recommended, continue to carefully monitor changes in the level of use of the Program. The administrative requirements will also be monitored in order to achieve the appropriate balance between the informational and regulatory requirements necessary to meet our performance measurement and other commitments on the one hand, and the burden on lenders and borrowers in responding to these conditions on the other.

About the Follow-Up

Objective

The overall objective of the follow-up audit was to assess the progress made by Industry Canada in addressing the issues raised in our December 1997 Report. We wanted to determine whether the Department now has the systems and practices in its Program to manage it efficiently, cost-effectively, and in compliance with legislative authorities.

Scope

The follow-up covered Industry Canada's management of the Canada Small Business Financing Program and its administration of the *Small Business Loans Act* and *Canada Small Business Financing Act*, which govern the Program. (The follow-up excluded the capital leasing pilot project launched by the Department in April 2002 to make capital leasing more accessible to SMEs.) We examined the responsibilities and activities of Industry Canada, in particular the Small Business Loans Administration directorate and the Small Business Policy Branch, and those of lenders.

Criteria

Our examination was based on the following criteria:

- The objectives and the expected results of the program related to small business loan guarantees should be clearly stated.
- The Department should have management practices and controls that would ensure that small business loan guarantees are processed efficiently and cost-effectively, that the risks of the program are minimized, and that the objectives of the program are achieved.
- Parliament should be provided with relevant, reliable, and understandable information on the economy, efficiency, and effectiveness of the program.

Approach

We interviewed Industry Canada employees and representatives of financial institutions. We reviewed the studies and reports produced by and for Industry Canada and examined the Department's systems and practices. We also conducted analyses based on the Department's data.

Ratings

We assessed the action of departments/agencies against our original audit recommendations (see Key Message at the beginning of the Chapter). We used the following ratings:

- **Completed.** Corrective action has been fully implemented.
- **Satisfactory progress.** Progress is being made at a satisfactory pace.
- **Limited progress.** Some progress is being made, but the pace or scope is not satisfactory.
- **No progress.** No evidence of progress although the department or agency accepted the recommendation from the original audit.
- **Rejected.** The department or agency did not accept the recommendation from the original audit.
- **Unknown.** Status of progress is unknown or information is not available.

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SEPTEMBER

2002

A Message from
the Auditor General of Canada

Chapter 1

Human Resources Development Canada—
The Integrity of the Social Insurance Number

Chapter 2

Health Canada—
National Health Surveillance

Chapter 3

Health Canada—
Federal Support of Health Care Delivery

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National Defence—
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Chapter 5

Industry Canada—
Management of the Canada Small Business
Financing Program



2003



A Status Report
of the
Auditor General of Canada
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The May 2003 Report of the Auditor General of Canada comprises six chapters, and a Message from the Auditor General.

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Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my second Report of 2003 to the House of Commons, which is to be tabled in the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser

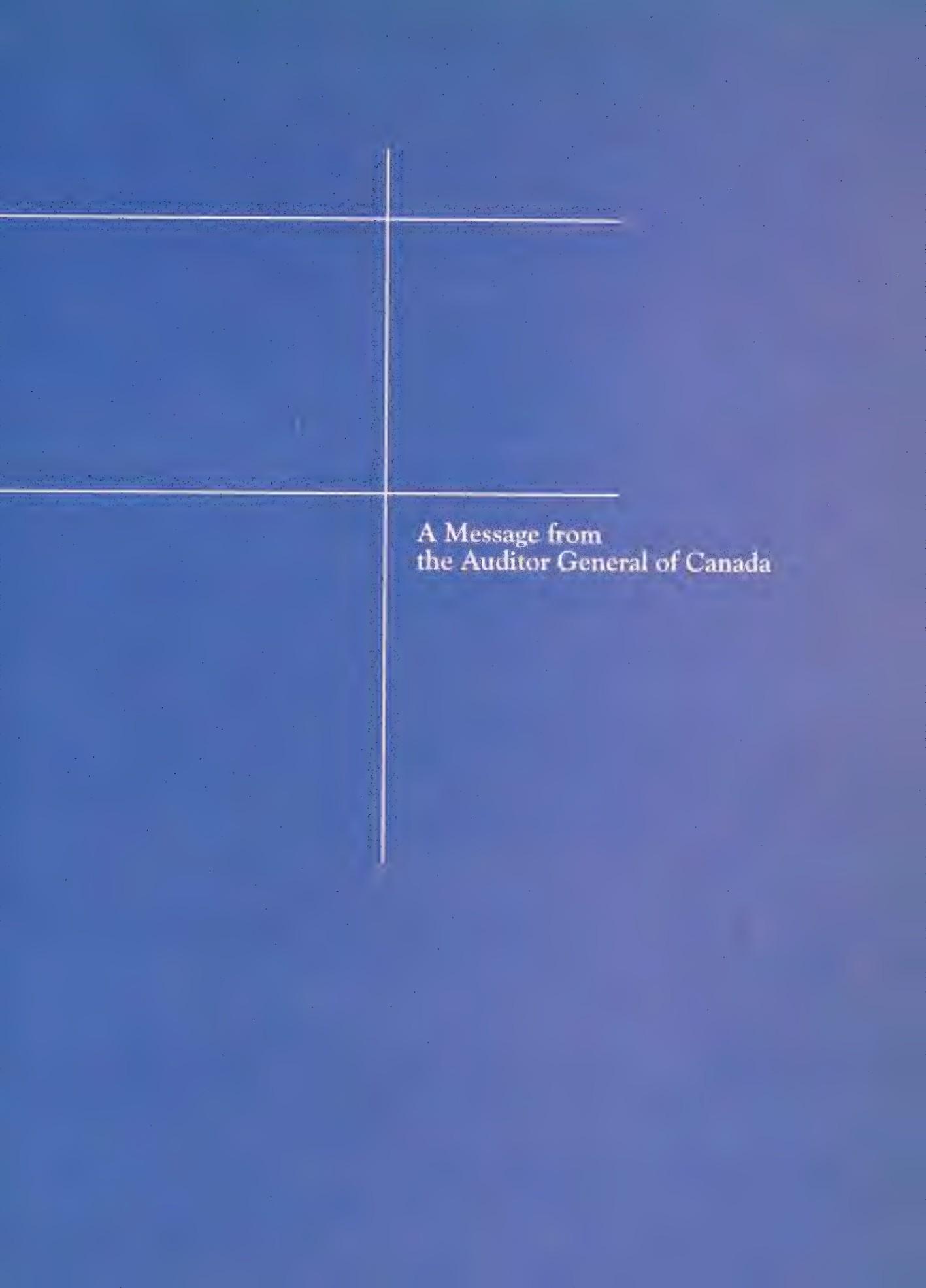
Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 27 May 2003

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A Message from
the Auditor General of Canada



Sheila Fraser, FCA
Auditor General of Canada

A Message from the Auditor General of Canada

Making a difference—for 125 years

I'm pleased to present my second Status Report to the House of Commons.

When I was named Auditor General in May 2001, I decided to keep the slogan—Making a Difference—that had been adopted by my predecessor. Though many other organizations can and do make the same claim, I think it sums up the mandate and role of the Office of the Auditor General in a simple and straightforward way.

Providing independent information to parliamentarians in my regular reports to the House of Commons—along with assurance on information provided by government—is an important step in the process of making a difference for Canadians. The information generated through our audits and studies helps parliamentarians better scrutinize government programs and services and determine whether or not Canadians have received value for their tax money—key to Parliament's role as watchdog over the public purse. The information also helps them evaluate the progress being made in government-wide management reforms.

Parliamentarians have the important task of making sure that steps are taken to correct any problems we identify. My colleagues and I frequently appear before parliamentary committees, along with representatives of the departments we have audited, to answer questions about what our audits found. The Standing Committee on Public Accounts often asks departments to produce action plans for correcting problems, and it holds them to those plans; occasionally other standing committees do this too.

This Status Report also plays a role in making a difference: it closes the loop in the auditing process by reporting back on action the government has taken in response to our audit findings and recommendations. We introduced this report in September 2002 to better meet the needs of parliamentarians, particularly the members of the Standing Committee on Public Accounts.

To discharge their responsibilities well, our elected representatives need answers to key questions: What steps has the government taken to make needed improvements? How well are departments and agencies progressing in those efforts?

We designed the Status Report to provide clear and focussed answers to these questions, based on a rigorous follow-up on our recommendations. It allows us to answer some of our own questions as well: Does our work promote positive change? Does it in fact make a difference for Canadians?

I think this Report provides solid evidence that government does act in response to our recommendations; we provide many examples of efforts by departments and agencies to make changes that will have lasting benefits.

Overall, I am pleased to say that the results are positive. Of the six chapters that follow, four report satisfactory progress, while two—Rating Departmental Performance Reports and Reform of Classification and Job Evaluation in the Federal Public Service—report unsatisfactory progress.

Managing the Risks of Non-Compliance for Customs

Overall, we are satisfied with the Canada Customs and Revenue Agency's progress in responding to the 10 recommendations we made in two previous audits of the Customs program, given the difficulty of the recommendations and the amount of time that has elapsed since we made them. Our recommendations were aimed at improving risk management in the Customs program. In April 2000 our focus was on risks related to travellers entering Canada; in December 2001 it was on risks related to commercial shipments. When we returned recently to do our follow-up, we found that the Agency had made satisfactory progress in implementing roughly half our recommendations.

In the aftermath of September 11, 2001, the Agency moved quickly to increase the screening of travellers and commercial shipments to detect potential terrorist threats. But it still faces many challenges as it seeks to manage the risks at Canada's borders.

We are pleased to see that advance passenger information is now collected from most airlines to help the Agency target high-risk air travellers. A new system now used at airports allows for better screening of travellers by customs officers. The Agency has also improved the targeting of in-transit marine containers by setting up joint targeting units with United States customs officials.

It has begun to implement its Compliance Improvement Plan—the overall compliance strategy for the Customs program and a key element of managing risk intelligently. To better clarify roles and responsibilities, the Agency has developed a plan to complete or update memoranda of understanding with organizations on whose behalf it works at the border, and it has already signed five.

The Agency has put an action plan in place to strengthen its compliance verification regime, which checks whether importers are complying with trade laws and regulations. It is also developing an ambitious training program and long-term learning plan for its compliance verification officers.

We are not satisfied with the progress made on our other recommendations. The Agency needs to move faster on collecting the information it needs to tell Parliament whether its risk management strategy is working and to support its assessment of how well the Customs program is meeting its goals. It must also step up efforts to analyze the results of random examinations; this would assist in identifying and targeting high-risk travellers and commercial shipments.

A lack of good records on training hampers the Agency's ability to determine whether its customs officers have received the training they need. Customs officers continue to express concerns about their training, even though the

Agency offers many courses for them. And while it has started to collect information from other government entities about the risks that arise from responsibilities undertaken on their behalf, the Agency needs to do much more to incorporate this information in its risk assessments.

The Economic Component of the Canadian Immigration Program

In April 2000 we reported serious problems in the management and delivery of the Canadian Immigration Program's economic component, which applies mainly to skilled workers and business immigrants. We noted that these problems hindered Canada's ability to protect the integrity of the Immigration Program and to make the most of the economic and social benefits of immigration.

Our follow-up audit found that Citizenship and Immigration Canada has taken our 2000 report and its recommendations seriously, as did the Standing Committee on Citizenship and Immigration when it considered the new *Immigration and Refugee Protection Act*. Overall, we are satisfied with the progress the Department has made.

In 2002 the Department implemented the new Act and its regulations—the first major overhaul of immigration legislation in some 25 years. Discussions with visa officers and other overseas staff indicate that the Department did a good job of preparing employees for the introduction of the new legislation by providing training and information.

Many of the issues raised in our 2000 audit have been addressed by the new Act and regulations. For example:

- Selection criteria for skilled workers and business immigrants have been amended.
- “Excessive demand” for health and social services has been defined.
- The Department can now apply for non-disclosure of information during admissibility hearings, immigration appeals, and judicial reviews.

Submission of fraudulent documents and misrepresentation are an ongoing threat to the integrity of the Immigration Program. To address this, in 2002 the Department created a new Intelligence Branch and signed new memoranda of understanding with the Royal Canadian Mounted Police and the Canadian Security Intelligence Service. A new tool, the Modern War Crimes System, is available to help visa officers identify war criminals. In addition, a new Permanent Resident Card has been developed.

We are not satisfied with the Department's progress in addressing concerns we raised in three specific areas: medical surveillance of immigrants, quality assurance for selection decisions, and the quality of reporting to Parliament.

The medical surveillance of immigrants needs greater attention to ensure that public health authorities are notified promptly of individuals requiring surveillance. The Department does not know what percentage of immigrants report to public health authorities and within what timeframe.

Although the Department has been developing a method for monitoring the quality of selection decisions for immigrants who fall within the economic component, we note that a department-wide quality assurance framework is not yet in place. This framework is essential to ensure the consistency, fairness, and integrity of the selection process.

Finally, we urge the Department to provide better information to Parliament on the economic component of the Immigration Program. Reports remain focussed on the numbers of immigrants admitted, although the Department does have other readily available information that could be useful to Parliament, such as the number of applications on hand and processing times. Currently, the number of skilled workers reported as entering Canada includes both the principal applicants and their dependants, which may lead people to overestimate the number of skilled workers admitted.

One new issue emerged in the course of this follow-up audit—the medical surveillance of refugee claimants.

Refugee claimants are required to undergo a medical assessment after they arrive in Canada. However, when it is determined that they require medical surveillance for inactive tuberculosis, the Department does not notify them or the public health authorities in the provinces and territories unless the claimant applies for a temporary work or study permit. Refugee claimants are not under medical surveillance while their claims are being processed by the Immigration and Refugee Board. This process took 10.4 months on average in 2001-02. If the Board denies refugee status, the public authorities are not notified and the failed claimant can remain in Canada for several months or years.

Correctional Service Canada—Reintegration of Male Offenders

In the past 10 years, five of our audits have reviewed all major aspects of the process of reintegrating male offenders into the community—a vital part of the mandate of Correctional Service Canada.

Overall, we are satisfied with the progress the Service has made in addressing many of our recommendations. It has taken positive steps to strengthen compliance with standards for supervising offenders in the community, improve the quality of reports to the National Parole Board for parole decisions, institute more timely case management, and shorten the time it takes to acquire critical documents on offenders.

It has been hard to make progress in many of these areas because the large number of parole officers who contribute to offender reintegration are widely dispersed across Canada. The commitment and leadership of senior management has been the key to overcoming these difficulties and achieving results.

We are not satisfied with the progress the Service has made in some other areas. There are still not enough employment programs or offender rehabilitation programs in the community. Senior correctional officers have not improved their performance of case management duties, and the Service

has not removed all delays within its control that affect the timely preparation of offenders for conditional release.

We recognize that substantive progress in many of these areas requires a fundamental change in the Service's operational culture as well as improved management practices, and thus will demand a sustained effort.

The follow-up also identified some additional related issues that need attention. We recommend that the Service take steps to

- further test the tools it uses in the initial assessment of offenders, to ensure that different raters using the tools would arrive at consistent results (inter-rater reliability);
- provide better initial and ongoing training for parole officers;
- examine the extent and impact of turnover among parole officers; and
- ensure that offenders' correctional plans are completed on time.

These are all fundamental ingredients in the sound reintegration of offenders.

Post-Secondary Recruitment Program of the Federal Public Service

The Public Service Commission has redesigned its Post-Secondary Recruitment program to better meet the needs of hiring managers and graduating students looking for work in the public service. In so doing, it has substantially implemented most of the recommendations we made in our December 2000 Report and has made recruiting faster and more flexible. Although some managers are still unaware of the recent changes, we are satisfied with the Commission's progress in marketing the program to departments.

Over the last three years, departments have increased the number of jobs they have filled using the program. However, the increase has been small compared with the increase in the total number of people hired into the public service during the same period. Despite the program's successful redesign, departments are not yet taking full advantage of it. Our follow-up found that while several departments have made significant progress, some—and the government as a whole—have made only limited progress in human resources planning and in establishing recruitment targets.

In December 2000, we recommended that the government develop a results-oriented recruitment strategy that would identify post-secondary recruitment targets to address workforce renewal challenges for the years ahead. The government still lacks a complete picture of both its recruitment needs and the educated and skilled people who are entering the public service through its various recruitment routes. Many managers continue to adopt the expediency of short-term hiring, despite the opportunity to recruit through a fast and flexible program.

Departments need to balance hiring to fill immediate vacancies and hiring strategically, with a view to ensuring that the government will have qualified people to deliver its programs and services in the future.

Rating Departmental Performance Reports

Every fall, federal departments and agencies are required to submit performance reports to Parliament that outline the results they have achieved in the previous fiscal year. Good reporting about results serves two important purposes: it enables parliamentarians to hold ministers to account for the funds their departments spend and it informs Canadians about the value they are getting for their tax dollars. Thus, good performance reporting is essential to the government's accountability to Parliament and to Canadians.

The first chapter of this report takes a look at these departmental performance reports and assesses how useful they are in providing credible information. Although our first examination of the government's reporting system in 1997 showed that the basic framework was sound, when we took another look at performance reports in 2000 we concluded that departments and agencies were too slow in improving the quality of their reports.

In 2002, we presented a model for rating departmental performance reports that outlines criteria of good reporting. In this report, we use that model to rate nine performance reports.

The overall result is still disappointing. Although we identify some promising practices, we again find that departments need to move more swiftly to improve their performance reports. Reports tend to share certain weaknesses: the results reported are not always credible and balanced; there is scant evidence that departments use performance information to make decisions; and there is too little reporting on important horizontal issues, such as security, that span the mandates of several government departments.

We will continue to update our rating model and use it both to encourage improvements in the quality of departmental performance reports and to identify promising practices and key challenges.

Reform of Classification and Job Evaluation in the Federal Public Service

Since 1995, we have been auditing the government's initiative to reform its classification and job evaluation systems through the development of the Universal Classification Standard. Normally we would follow up on previous recommendations but since the government has significantly changed its approach to classification reform, we focussed on its progress from 2000 to 2002 and the challenges that remain.

Overall, we are not satisfied with the progress made in reforming the government's outmoded and problem-ridden classification system, and we are concerned about the significant challenges the Secretariat faces in its new approach to achieving its objectives.

The system the federal government uses to classify and compensate positions is now almost 40 years old. Skills that were highly valued when this system was created have become obsolete, and changes in technology have transformed the way government works, creating new occupations in the process. The balance has shifted away from operational and administrative

support categories to policy development, program management, and professional and technical specialties such as law, science and economics.

It is clear that the old system, which is still in use today, has many problems: it is costly, cumbersome, time-consuming and complex. The government has been trying since 1991 to reform the classification and job evaluation system in the federal public service in an effort to resolve long-standing problems.

However, in May 2002 the government declared that its second attempt at reform (1995 to 2001), the Universal Classification Standard, could not be implemented government-wide because it could not develop a single compensation structure for all employees in the public service that would be workable. This planned universal approach has now been abandoned, despite a large investment of time and effort by tens of thousands of employees and an estimated investment of about \$200 million in incremental costs between 1998 and 2001.

The Secretariat announced in May 2002 that the government would begin a new classification program of step-by-step, tailored reforms. Like the old system, it will use separate classification standards for each occupational group. The Secretariat is committed to using some of the work completed under the Universal Classification Standard project as a basis for developing the new group-specific standards, thereby recouping part of the investment made in developing the Standard. Our follow-up audit found the Treasury Board Secretariat still at the planning stage of the new approach.

The Secretariat will have to manage a number of challenges to succeed in this third attempt. It still has not defined a clear vision of what classification reform will entail and has not articulated an overall plan and timetable for completing the incremental reform. A step-by-step approach represents significant risks when the overall results are not defined. Our audits of other, similarly ambitious government-wide reforms have found that consistent leadership, clear expected results, sufficiently detailed plans with timelines and milestones, and active monitoring are essential to success.

In addition, the Secretariat has not finalized its compensation policy and objectives. It has addressed neither competing forces such as internal equity, labour market demands, and affordability nor the continuing need to satisfy the requirements of the *Canadian Human Rights Act*.

Finally, in focussing its efforts on the Universal Classification Standard project, the Secretariat did not exercise control over the classification of positions under the old, still existing classification system—so no one knows to what extent positions are misclassified. We view the state of job classification and compensation with serious concern.

Conclusion

We recognize the enormous challenge the government faces in delivering large and complex programs and services. Our audits do find shortcomings—that is the nature of auditing—but we try to be constructive in our criticisms and suggest solutions to the problems we identify. When we make recommendations for change, it is with the utmost respect for federal institutions and for the men and women who dedicate themselves to public service. As legislative auditors, we share an important responsibility with government: safeguarding the public purse—we, through our audits and these follow-up audits; and government, through its actions to respond to our recommendations and ensure sound management of public resources.

In conclusion, we are satisfied with the progress we found in four of our six follow-up audits this year. I hope this Status Report reassures those who wonder whether anything is ever done to fix problems identified in our audits. Clearly, the answer is yes, thanks to both Parliament and government departments. I congratulate the members of the public service who view our recommendations as opportunities to manage better. Canadians reap the benefits and the results, whether in the form of better accountability, improved programs, increased efficiency, lower costs, or better service.

Since the first independent Auditor General was appointed 125 years ago, the Office has worked diligently to serve Parliament. By consistently identifying ways to improve the government's performance, and by reporting back on concrete action that has been taken, the Office of the Auditor General strives to continue its valued tradition of making a difference for Canadians.

Chapter

1

Rating Departmental Performance
Reports

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Rating Departmental Performance Reports

Main Points

- 1.1** Performance reporting is more important than ever for parliamentarians and Canadians. As events unfold and debates take place on health, the environment, and security, Canadians want to know the value they are getting for their taxes and that their elected representatives can hold ministers to account for the money their departments spend. Departmental performance reports are a key tool for ensuring effective accountability.
- 1.2** In 2000 an audit of departmental performance reports concluded that the progress federal departments and agencies have made to improve the quality of their performance reporting to Parliament was too slow. In 2002 we presented a model to rate departmental performance reports.
- 1.3** In this audit, we rated nine departmental performance reports tabled in the fall of 2002 against this model. Through this exercise we identified some promising practices, as well as many challenges that need to be addressed. Overall, we found that progress in performance reporting remains too slow for these nine departments.
- 1.4** We found that performance reports provide a good overview of each department's organizational context and planned strategic outcomes. However, performance expectations are not always clear and concrete, information does not necessarily focus on program results, and reported results are not always credible and balanced. As well, the reports provide little evidence that performance information is used to make decisions. We also looked at one horizontal issue and found that the reports give only limited recognition to the importance of reporting on such issues.
- 1.5** We will continue to update and use our rating model to encourage improvement in the quality of departmental performance reports, as well as to identify promising practices and key challenges.

The government has responded. The government welcomes the efforts of the Auditor General to assess departmental performance reports. Its comments are included at the end of this chapter.

Introduction

Performance information continues to be important

1.6 The Office of the Auditor General believes that good performance reporting is fundamental to effective governance and accountability to Parliament.

1.7 Performance reporting is important for Canadians who want to know the value they are getting for their tax dollars. It enables them to understand the difference a department is making for them. Parliamentarians also need timely access to good quality performance information about government activities, so that they can scrutinize programs and services more effectively.

1.8 Every fall, over 80 federal departments and agencies submit performance reports to Parliament that outline their accomplishments to the end of the last fiscal year as established in previous reports on plans and priorities.

1.9 In 1997 we examined the state of the federal government's reporting system following the implementation of the Improved Reporting to Parliament Project that was initiated two years earlier. We found that the government had made a good start and that the basic reporting framework was sound. However, when we conducted a follow-up audit in 2000, we found that the pace at which departments were making the needed improvements to their performance reports was too slow.

1.10 In 2001 the Eighth Report of the Standing Committee on Public Accounts stressed the importance of good performance reporting. The Committee also recommended that we "conduct random audits of the information contained in the performance reports of departments and agencies in order to verify, among other things, that the information contained in these reports is a fair representation of accomplishments against goals and objectives."

1.11 In response to this request, we developed a model to rate performance reports, which was released in 2002. This model outlines the criteria necessary to achieve good reporting. We are still updating our model and will adjust it as we use it to rate performance reports so that it will continue to reflect current best practices in reporting.

1.12 The Treasury Board Secretariat stressed the importance of good performance reporting in *Results for Canadians: A Management Framework for the Government of Canada* (2000) which stated that "Strengthening accountability to Parliament and to citizens is an integral part of the management board's change agenda." In 2002 the President of the Treasury Board released a report entitled *Canada's Performance 2002* that summarizes Canada's overall performance on 19 societal indicators. A similar report was released in 2001.

1.13 The Treasury Board Secretariat and the Office of the Auditor General plan to release the Managing for Results Self Assessment Tool in 2003. This tool will describe the transition path toward effectively managing for results. Many of the tool's concepts are similar to those of performance reporting as both approaches require credible and balanced results information.

1.14 The Treasury Board Secretariat's guidelines for preparing departmental performance reports outline performance reporting principles and provide advice about how to interpret and apply them. Even though there is no one-to-one relationship between the model and the Treasury Board Secretariat's guidelines for performance reporting, the criteria are broadly consistent with the principles in the guidelines. The model has received the general support of the Secretariat. The principles in the CCAF's (formerly the Canadian Comprehensive Auditing Foundation) 2002 *Reporting Principles—Taking Public Performance Reporting to a New Level* are also consistent with our criteria.

A model for rating departmental performance reports

1.15 Given the importance of performance reporting, we continue to work to improve our model for rating departmental performance reports. This model rates reports according to five criteria. A performance report that fully meets all five criteria would demonstrate the attributes of excellent reporting. The five criteria, each of which include several sub-criteria, are as follows:

- organizational context and strategic outcomes are clear,
- performance expectations are clear and concrete,
- key results are reported against expectations,
- performance information is credible and balanced, and
- use of performance information is demonstrated.

1.16 Together, the criteria represent expectations for a credible performance story about the difference a department can make for Canadians (Exhibit 1.1). The first three criteria reflect what has been accomplished; the other two indicate the quality and use of the performance information. In particular, the fourth criterion expects the department to show what it does to ensure the quality of its performance information. However, our model is not designed to provide assurance that the information in a performance report is accurate because it does not include an audit of performance information. As well, if a report omits a key piece of performance information, it would not likely be taken into account in the rating.

1.17 Our model provides five achievement levels. The fifth level represents the attributes of excellence in performance reporting. By meeting each criterion of the model at progressively higher levels, performance reports demonstrate that departments have increasingly mastered these attributes.

Exhibit 1.1 Model for rating performance reports—Overview

Criterion	Level 1 (basic)	Level 2 (fair)	Level 3 (good)	Level 4 (very good)	Level 5 (excellent)
Organizational context and strategic outcomes are clear					
Performance expectations are clear and concrete					
Key results are reported against expectations					
Performance information is credible and balanced					
Use of performance information is demonstrated					

Focus of the audit

1.18 The objective of this audit is to rate several departmental performance reports by

- determining the overall quality of these departmental performance reports, which provide Parliament and Canadians with information about departmental performance; and
- determining if horizontal issues (paragraph 1.57) are properly identified in these performance reports, using a shared outcome as an example.

1.19 We selected the performance reports of the majority of departments and agencies that have mandates that relate to the security of Canadians. These are

- Citizenship and Immigration Canada,
- Correctional Service Canada,
- the Department of Justice Canada,
- the Immigration and Refugee Board,

- National Defence,
- the National Parole Board,
- the Royal Canadian Mounted Police (RCMP),
- the Solicitor General Canada, and
- Transport Canada.

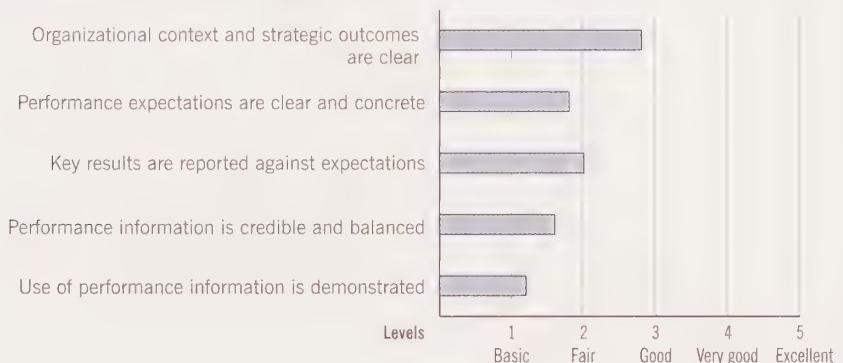
These organizations represent \$19.3 billion in expenditures, or 12 percent of the government's total expenditures for fiscal year 2001–02.

1.20 More details about this audit's objectives, scope and approach are provided in About the Audit at the end of this chapter.

Observations and Recommendations

1.21 Our audit found that the reports are not always as clear and useful as they need to be (Exhibit 1.2). Overall, the reports achieved a fairly good rating on the first criterion. They almost reached, or reached, a fair rating on the second, third and fourth criteria. However, they barely exceeded the basic level on the fifth criterion. These results show that the performance reports we rated have a long way to go before they reach the highest levels of the model. Several previous audits also expressed significant concern about the overall quality of reporting. Yet, based on our rating of these nine reports, this audit shows that performance reporting continues to face many challenges. Nonetheless, we have identified some promising practices in the nine reports that we rated, which illustrate how performance reports can be improved. These practices show how it is possible to improve reporting to Parliament.

Exhibit 1.2 Summary results for the nine reports rated



Organizational context and strategic outcomes

1.22 The first criterion requires that a department's organizational context and strategic outcomes are clear. It assesses whether the report clearly states a department's business lines and whether these are reflected in its mandate and mission. It also determines if there is a logical sequence and link between its business lines and its key results, which include its planned strategic

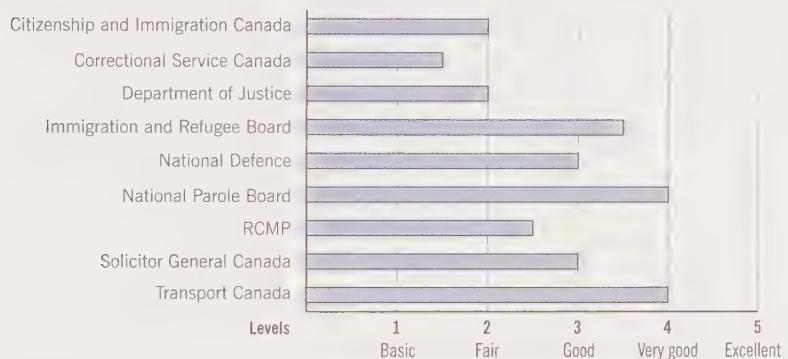
outcomes. These factors should be aligned with those that influence an organization's operating environment. This criterion also asks that key external partners be identified and that a credible description of the risks the department faces be provided.

1.23 The first criterion assumes that public sector organizations do not exist in a vacuum. That is, they are subject to many internal and external opportunities and pressures, and they have to solve increasingly complex issues in order to fulfil their mandate. Therefore, a department's performance story is only meaningful when it is placed in this broader context.

The reports generally provided a good overview of the organizational context and strategic outcomes

1.24 All but one of the reports achieved a rating of fair to very good on the first criterion (Exhibit 1.3). This is consistent with what we found in our 2002 Report when we demonstrated how our model could be used.

Exhibit 1.3 Organizational context and strategic outcomes are clear—Results for the nine reports rated



Promising practices in reporting organizational context and strategic outcomes

1.25 The reports provide good overviews of their planned strategic outcomes. Transport Canada, National Defence, and Citizenship and Immigration Canada provide Web links in their reports so that readers can get more background information. By providing more comprehensive information about the department and its organizational context through these Web links, this approach helps to keep the reports comparatively short and focussed on performance.

1.26 The reports also provide good information about how the department's business lines contribute to planned strategic outcomes, and how they are aligned with their missions and mandates, as well as federal government priorities. Transport Canada and the Solicitor General Canada did well in this area. Transport Canada's report includes a graphic that clearly shows how it links its strategic objectives with its business lines, resources, and broad

government themes. It also shows how the department's activities and outputs contribute to its strategic objectives.

Challenges to reporting on organizational context and strategic outcomes

1.27 Although the reports did relatively well with respect to the first criterion, there is still room for improvement. An important aspect of organizational context is the key partnerships through which departments deliver some of their programs. In most cases, only a list of partners is provided. There is no information about which department has the lead, or how the activities and outputs contributed to a shared outcome. We address this issue again when we discuss the reporting of horizontal issues.

1.28 According to the second criterion, performance expectations should be clear and concrete. That is, departments should clearly state what they will do for Canadians. This criterion focusses on performance expectations and on how they relate to the organization's strategic and operational plans.

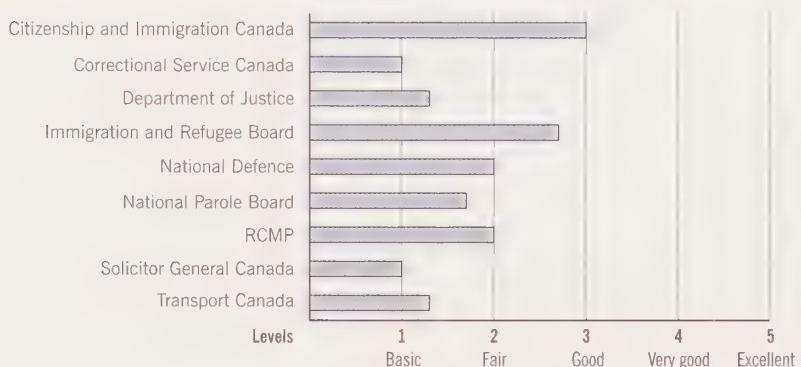
Performance expectations should be clearly identified and aligned with federal government priorities. They should also be expressed as outputs, or outcomes at higher levels in the model. They should include the direction of planned changes and the timeframe in which those changes will be made. The report should state, for example, how much outcomes will be increased, maintained, or decreased as a result of the department's programs.

1.29 The second criterion also captures how the organization plans to achieve its performance goals. While most of this information is included in the corresponding report on plans and priorities, the performance report should contain enough information to enable readers to understand how the department's strategies and activities will achieve the expected results.

Performance expectations are not always clear and concrete

1.30 With the exception of two departments, the reports did not rate well on the second criterion. Overall, we found that performance expectations are not clear and concrete, and that they are not aligned with the organization's strategic and operational plans (Exhibit 1.4).

Exhibit 1.4 Performance expectations are clear and concrete—Results for the nine reports rated



Promising practices in reporting performance expectations

1.31 The RCMP report provides an executive summary chart that assesses its performance against the problem being addressed. However, because the chart does not include the organization's specific performance expectations, it is not as informative as it could be.

1.32 Throughout the Citizenship and Immigration Canada report, clear and concrete statements are made about how the department's performance expectations could affect Canadians. For example, it describes how achieving certain immigration levels will offer economic and social benefits for Canada. It explains how immigrants play an important role economically by building human capital and filling labour market gaps. According to the report, Canadian society also benefits from the cultures, traditions, and knowledge that immigrants offer, and from the strong communities and social stability that reunited families provide. The report states that attaining this performance expectation is to be demonstrated by "achieving planned emigration levels of 200,000 to 225,000 newcomers to Canada for 2001." This performance expectation states clearly the direction, amount, and timeframe of the planned change.

1.33 The Immigration and Refugee Board performance report discusses strategies for achieving planned levels of activities and outputs and how to deal with high volumes of outstanding immigration claims. For example, the report states that resources will be used to develop streamlined processes to better manage the record number of outstanding refugee claims.

Challenges to reporting performance expectations

1.34 Reports on plans and priorities are intended to establish performance expectations and outline the general direction a minister wants a department to take during the Estimates year and the two fiscal years that follow. Because performance reports are designed to provide information on results that were achieved, they are compared with the relevant reports on plans and priorities. Reports on plans and priorities set performance targets while performance reports state the extent to which they were met, and provide explanations for the level of performance achieved.

1.35 We found that, in many cases, performance reports were not consistent with departments' reports on plans and priorities. In fact, in seven of the nine reports that we rated, the performance expectations in the planning reports were, to varying degrees, different from those in the performance reports. In some cases, performance expectations were added, consolidated, modified, or deleted, and the differences were not explained. As a result, accountability for previous commitments is not clear. For example, the Solicitor General Canada's report is inconsistent with the Department's report on plans and priorities.

1.36 We also found cases where targets are vague. For example, the RCMP report states that a reduction in organized crime would be demonstrated by long-term investigations that indicate results that are superior to those in the previous year. Another practice is to provide targets that are activity-based

rather than ones that focus on outcomes. For example, the Department of Justice report states that a fairer, more effective youth justice system will be measured by the youth justice legislation.

Performance outcomes

An **outcome** is an external consequence that can be attributed to an organization, program, etc. and that is considered to be significant in relation to its commitments. Outcomes may be described as immediate, intermediate, final/end, direct or indirect, intended or unintended.

An **output** is a direct product or service that is produced through program activities and delivered to a target group or population.

(Treasury Board Secretariat)

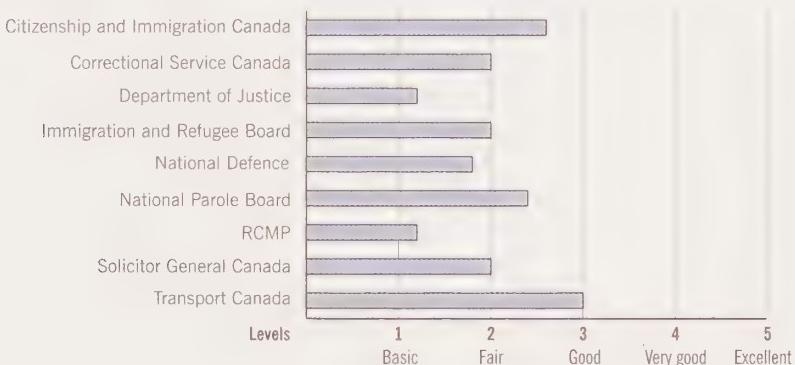
1.37 The third criterion requires that key results be reported against performance expectations and that departmental contributions be addressed. It focusses on results that are expressed as outputs, or outcomes, at the higher levels in the model, and whether or not the department achieved what it said it would achieve. The elements of this criterion include aligning outputs and outcomes with performance expectations, addressing the challenges of achieving expected results, identifying who contributed to the performance outcomes, determining the level of resources required, and explaining how results are interpreted.

1.38 This complex criterion is at the heart of good performance reporting. Unlike the first two criteria, which set the stage for performance reporting, this criterion addresses the key attributes of the performance information that is reported.

Outcomes are not widely reported

1.39 The ratings for the third criterion ranged from basic to good. In particular, the amount of results information reported by departments varies a great deal. Overall, we consider the results to be very mixed (Exhibit 1.5). Five reports provide information on the level of resources needed to achieve the strategic outcomes but none had information on resources for key outputs. As well, they pay little attention to who is responsible for achieving these outcomes.

Exhibit 1.5 Key results are reported against expectations—Results for the nine reports rated



Promising practices in reporting outcomes

1.40 The Immigration and Refugee Board report provides a lot of detailed information about its operational outputs. For example, the Board's report provides data about several referred and finalized refugee claims, specifically, about the average processing time and the cost of processing each claim. Despite the fact that it does not report performance expectations,

Correctional Service Canada does report some quantified information for a number of key results such as re-offending rates during supervision.

1.41 Many of the reports provide Web links to their evaluations and internal audits. For example, the RCMP report includes a section that conveniently summarizes its evaluations and internal audits. While the Citizenship and Immigration Canada report indicates that only one evaluation report was completed during the 2001–02 fiscal year, it presents a balanced account of its key conclusions. The Solicitor General Canada report often refers to evaluation reports that are related to several strategic outcomes, but it does not provide information on their content.

1.42 Identifying the level of resources allocated to achieve specific results is difficult. However, most of the reports managed to do so at the broad strategic outcome level. The Correctional Service Canada report provides a promising example of how to communicate this type of information. However, like other departments, it does not identify the resources allocated to achieve its key outputs and immediate outcomes. All the reports provide resources that are allocated according to business lines. Only one report identifies the financial contribution of each business line to each strategic outcome. It does this by equating its business lines to its strategic outcomes. For the most part, the reports do not provide financial information at the next level down for strategic outcomes or business lines namely, for major programs.

Challenges to reporting outcomes

An **activity** is an operation or work process that is conducted by an organization and that is intended to produce specific outputs, for example, products or services. An activity is the primary link in the chain through which results are achieved.

(Treasury Board Secretariat)

1.43 We observed that some information about what activities were undertaken to produce the outputs or contribute to the outcomes is presented as the actual measures of outputs or outcomes. For example, the Citizenship and Immigration Canada report presents descriptions of recent legislative changes as measures of its performance. Other reports also present activities such as meetings, organized events and completed studies as results. While useful and relevant, any information on activities should also be accompanied by explanations about how they contribute to the results that are achieved for Canadians.

1.44 As we indicated earlier, providing highlights of key findings from relevant evaluations and audits helps to explain the department's performance and the challenges it faces. We noted that Transport Canada's report does not provide this type of information, although such evaluations and audits were in fact conducted. A number of these evaluations and audits address issues that are of significant interest to Canadians. It would have been helpful if the Department had informed Parliament about its efforts to address these issues.

1.45 As previously noted, the Immigration and Refugee Board report provides a lot of information about its outputs. However, data on the numbers and proportions of claims accepted, rejected, withdrawn or abandoned through the refugee protection process are not provided, although they would be of interest to parliamentarians. Information on the numbers and proportions of appeals allowed and dismissed through the immigration appeal

process would also be helpful. We also observed that the Board provides little information on its outcomes.

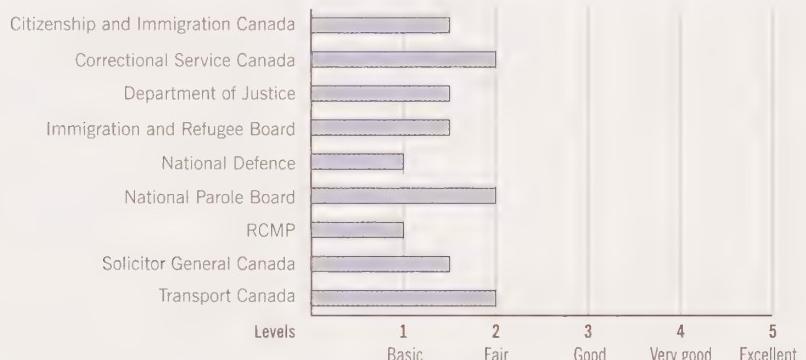
Credible and balanced results

1.46 The fourth criterion states that performance information should be credible and balanced. First, it focusses on the quality of performance information and the reliability of information sources as the basis for judging the credibility of the data. Second, it focusses on whether there is balanced reporting of good results and shortcomings, and whether the level of detail for key results is appropriate. This criterion is fundamental to good performance reporting. If all the elements of good reporting are in place, but the information provided is not credible or balanced, then the report will not be useful for parliamentarians or Canadians.

Departments do not generally report balanced results

1.47 The ratings for this criterion were between basic and fair. Overall, the reports did not achieve a good rating (Exhibit 1.6).

Exhibit 1.6 Performance information is credible and balanced—Results for the nine reports rated



Promising practices in reporting credible and balanced results

1.48 The National Parole Board report explains the limitations of the data on post-warrant expiry recidivism. It mentions that the number of re-offences measured by this indicator is probably much larger in reality because of certain limitations of the data. The Immigration and Refugee Board reports the number of complaints filed against members of the Board. Also, sections of the RCMP report provide endnotes that contain information about the external data sources.

Challenges to reporting credible and balanced results

1.49 We noted that, overall, the reports tend to present only positive performance information rather than both successes and shortcomings. This tendency to focus only on “good news” produces reports that convey a one-sided view of departments’ performance. Consequently, a lack of balanced reporting means that potential users, such as parliamentarians, may be tempted to discount them as biased, incomplete or lacking credibility.

Use of performance information

1.50 We also identified several examples of data that were of limited quality. The reports provide little information about how departments manage data quality, what the limitations of the data are, and what they intend to do to make improvements.

1.51 Managing well to obtain improved results is a challenge. As noted in our December 2000 Report, Chapter 20, Managing Departments for Results and Managing Horizontal Issues for Results, there is a need for more widespread measurement of the results departments accomplish and the use of that information to improve programs. The previous four criteria are based on a more traditional approach to reporting performance, where the organizational context must be provided, the performance defined, measured, and reported against expectations, and the information must be of the highest quality. However, even if all of these conditions have been met, if feedback on past performance is not used to improve future results, then it may only be a reporting exercise for external accountability. A performance report is also an invaluable tool for departments to demonstrate that they have learned from their shortcomings and challenges, and that they are using this information to improve their future performance. This should also encourage balanced reporting.

1.52 The fifth criterion expects that performance reports will show the ways in which performance information is used, including how it will be used to establish future performance expectations. It assumes that performance information is not simply collected to create reports. Rather, it will be used to help departments make strategic decisions, highlight lessons learned, and identify how weak performance will be corrected. The performance information should also provide a credible discussion about the capacity of a department to produce sustainable results by continuing to perform well in the future.

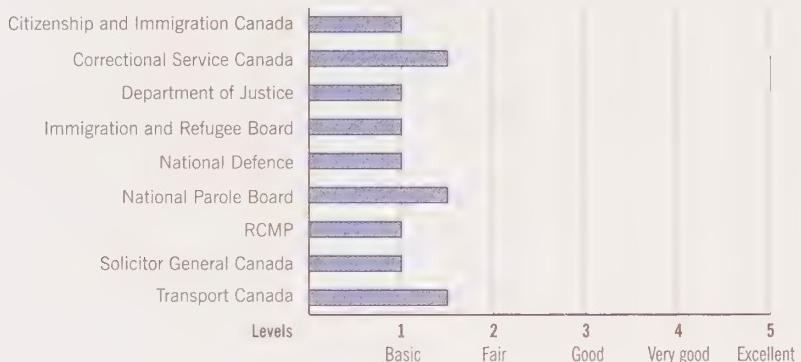
The use of performance information is not demonstrated

1.53 Most of the reports we rated only achieved a basic level on the fifth criterion (Exhibit 1.7). When departments produce key results that are of a reasonable quality, they should be able to demonstrate how this information is used to help make decisions about how to improve future performance.

Promising practices in reporting the use of performance information

1.54 The National Parole Board report states that it has had difficulty with managing pardon workloads and that this has an impact on processing times. In response to the growing backlog of applications for pardons, the Board lists the activities it has undertaken to improve its performance in this area.

1.55 The Department of Justice report provides a short overview of lessons learned and the challenges it is facing for each of its business lines. Although it might be a promising practice that other departments could adopt, the relevance of the lessons learned is not always clear.

Exhibit 1.7 Use of performance information is demonstrated—Results for the nine reports rated**Challenges to reporting the use of performance information**

1.56 None of the reports we rated discuss the capability of departments and agencies to continue to meet performance targets in the future. The ratings suggest that this could be one of the most challenging aspects of performance reporting. Facing this challenge will require that good information be incorporated into the decision-making process and that the information be used to correct problems and to evaluate whether or not the department is heading in the right direction.

Horizontal issues**The challenge of reporting horizontal issues**

1.57 Horizontal issues are programs and activities that span the mandates of several departments and agencies and that receive a contribution from each. Reporting on these issues to Parliament presents particular challenges for the government as a whole, as well as for each of the respective departments. Departments have to determine at which point their contribution to a shared outcome requires that it be reported to Parliament. The government has recently used *Canada's Performance 2002* to report on the results of some horizontal areas.

1.58 We expected that performance reports would provide sufficient and credible information to Parliament about the department's performance for significant horizontal issues. We also expected that departments participating in a horizontal activity would

- describe their role in the issue and their contribution to the shared outcome,
- identify the lead department, where appropriate, and
- direct readers to the lead department's performance report.

Reporting on the safety and security of Canadians is incomplete

1.59 As the government has stated on a number of occasions, the events of September 11, 2001 demonstrate the need for an extensive, government-

wide response to terrorism. Parliamentarians and Canadians need to know how departments and agencies are working together in a horizontal manner to help protect Canadians from organized criminal and terrorist threats. They also need to know the value they are getting for government expenditures, such as the additional \$7.7 billion allocated in the December 2001 federal Budget to this issue over the next five years.

1.60 In order to measure the results of departmental contributions to this particular horizontal area, it would be useful to clearly define what these activities are supposed to achieve. Current descriptions of activities in this area at the government-wide level are sketchy. The Government of Canada's Web site states that many government departments and agencies work together to keep Canada safe but it does not identify these organizations. Information is also lacking about departmental responsibilities related to organized crime—a key issue discussed in the 2001 Speech from the Throne.

1.61 Government-wide reporting on the results of these activities is being developed. In *Canada's Performance 2002*, the President of the Treasury Board identified "security from organized criminal and terrorist threats" as one horizontal area of government activity. The report refers the reader to the performance reports of the relevant departments. The Treasury Board Secretariat Web site identifies the departments that contribute to helping protect Canadians from organized criminal and terrorist threats, and provides Web links to their performance reports.

1.62 Since government-wide documents provide only general references to horizontal issues, we expected to find more information on the participants and the results of their activities in this horizontal area in the departmental performance reports. Our rating model identifies two opportunities for departments to address horizontal issues in their performance reports: identify their role in the initiative and identify their contribution to the shared outcome.

1.63 Eight of the nine reports reviewed list some departments' key partners for their activities that address organized criminal and terrorist threats. However, the details vary significantly. Transport Canada simply lists all of its partners, without identifying the horizontal issue. Only three reports identify which department leads a particular horizontal issue. The Department of Justice provides information on horizontal, government-wide issues in a table that names the issue, the lead department, its partners, and the department's activities.

1.64 Although we did not rate the Privy Council Office's performance report, we noted that it addresses issues related to the security of Canadians. It states that, as part of the aftermath of September 11, 2001, it "led and co-ordinated the interdepartmental response to the crisis through the creation of formal co-ordination mechanisms and enhanced direct contact between personnel in different federal departments and agencies." This report does not mention which departments were involved in the horizontal area or what their responsibilities were.

1.65 None of the performance reports indicate the contributions their partners have on the shared outcome. Results of activities designed to help protect Canadians from organized criminal and terrorist threats are not reported. Only the Solicitor General Canada refers to an evaluation of the Integrated Proceeds of Crime Initiative, but the report does not provide the actual results of its contribution to the shared outcome of that initiative. A few departments report on some of the challenges that they face in working with other departments to produce shared results.

1.66 We noted that the Treasury Board Secretariat, in its *Departmental Performance Reports 2002 Preparation Guide*, requires departments to reflect the contribution their partners make to help them achieve their strategic outcomes. However, this requirement does not really go beyond asking them to identify their partners. This means that overall, there is little collective or systematic reporting to Parliament on the various initiatives aimed at increasing Canadians' security and safety or on who is accountable for these efforts and their results.

1.67 In our December 2000 Report, Chapter 20, Managing Departments for Results and Managing Horizontal Issues for Results, we recommended that the Treasury Board Secretariat should play a stronger leadership role in ensuring that horizontal issues are reported. We continue to support this view.

1.68 Recommendation. The Treasury Board Secretariat should strengthen its guidance and actively encourage departments to ensure that their performance reports

- identify significant horizontal areas,
- identify the lead department, where appropriate,
- identify the expected outcome for each area, and
- indicate how the department's activities and outputs contribute to the horizontal area's shared outcomes.

Treasury Board Secretariat's response: The Treasury Board Secretariat will continue to encourage departments to report on horizontal initiatives. We will be strengthening our guidance on the preparation of departmental performance reports with respect to programs and initiatives that cut across departmental boundaries.

Conclusion

1.69 This is the first time that we have used our model more extensively to rate performance reports. While we have identified some promising practices and challenges faced by the nine departments, overall, we found that their progress in improving performance reporting to Parliament remains too slow. Our ratings also showed that the importance of reporting on horizontal issues is not well recognized.

1.70 These findings are not new. In fact, they continue a trend of audit observations. In 1988 we concluded that reports to Parliament did not provide a fully satisfactory basis for accountability. In 1992 we again indicated that these reports did not provide the necessary breadth of information. In 1997 when the government reviewed its Expenditure Management System, we stated that progress in the area of performance reporting to Parliament was insufficient. In our 2000 Report, Chapter 19, Reporting Performance to Parliament: Progress Too Slow, we concluded that, "At the present pace it would take too many years for good performance to become routine."

1.71 In our 2000 report, we listed factors that contribute to the current state of reporting. These are as follows:

- frequently, the basic principles of good reporting are not understood or applied;
- performance reporting takes place in a political environment; and
- there are no incentives available for good reporting practices, or sanctions applied for those that are bad.

1.72 Various players can contribute to overcoming these obstacles. Of course, the departments should continue to work on improving their performance reports. The Treasury Board Secretariat should also continue to help them by challenging departmental performance reports and providing leadership and opportunities to increase their understanding and acceptance of the principles and practices of good performance reporting.

1.73 Parliamentary reviews of performance reports would also encourage better reporting. Parliamentarians, through various standing committees, could demand clarification and explanations of performance expectations and information. They could also challenge departments and agencies.

1.74 Our Office will continue to update and use the rating model as one tool to help encourage the improvement of performance reports to Parliament. By recognizing promising practices and identifying areas that should be improved, we hope to contribute to ensuring better reporting to Parliament.

Government's response: The government remains strongly committed to ongoing improvements to reporting to Parliament. In support of this, we welcome the efforts of the Auditor General to assess departmental performance reports in a systematic manner, identify strengths and weaknesses, and provide advice on how improvements can be made. Departmental performance reports reflect the responsibility of each minister and his or her department to account to Parliament for their performance against planned outcomes. We believe the findings, including the identification of promising practices, will help guide departments and agencies as they continue to improve their reporting to Parliament.

As indicated in the 2003 Budget, in order to reinforce accountability and transparency in public reporting, the government will continue to improve the relevance, timeliness and clarity of the information it provides to

Parliament. This includes making greater use of electronic reporting on expenditures and the results achieved by government programs and activities. The government will continue to work with parliamentarians, parliamentary committees and the Auditor General to identify opportunities to improve reporting to Parliament. We will draw on the results of these discussions and the findings of this chapter, and on other sources, as we renew our guidance to departments on performance reporting.

In particular, the recommendation that the Treasury Board Secretariat actively encourage departments to provide more fulsome reporting on significant horizontal initiatives, the Secretariat will continue to strengthen its guidance over the coming reporting period to underscore the importance of reporting on these horizontal initiatives.

About the Audit

Objective

The objective of this audit is to rate departmental performance reporting by

- determining the overall quality of departmental performance reports, and providing Parliament and Canadians with information about departmental performance; and
- determining if horizontal issues are properly identified in performance reports, using a shared outcome as an example.

Scope

We selected the performance reports of departments and agencies that have mandates that contribute to the horizontal area of helping protect Canadians from organized criminal and terrorist threats. This horizontal issue is one of those identified in the communities theme in the President of the Treasury Board's *Canada's Performance 2002* report.

We excluded the Canadian Security Intelligence Service and the Office of the Communications Security Establishment Commissioner because they are not required to prepare performance reports. The Customs program of the Canada Customs and Revenue Agency is also excluded, because although the Agency prepares a departmental performance report, it is one of the three agencies that report to Parliament through an annual report that this Office assesses separately.

Grouping similar organizations together enables us to compare common issues and challenges. Although our model is designed primarily to assess performance reporting at the department level, it also takes horizontal reporting into account.

Approach

In this audit, we assessed nine performance reports against our rating model.

These reports covered the period ending 31 March 2002. They were tabled in the House of Commons on 7 November 2002.

In the rating model, each of the five criteria is represented by a continuum that has five levels or stages of development. These are basic, fair, good, very good and excellent. An exceptional performance report would achieve an excellent rating in each criterion.

The approach developed in our April 2002 Report, Chapter 6, A Model for Rating Departmental Performance Reports requires raters to validate each other's ratings. With this in mind, our audit team used the model to rate the reports, the results of which were confirmed by experts and the Office audit team for each department and agency we examined. We did not audit each department's systems and procedures for producing the information included in their reports.

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Chapter

2

**Canada Customs and
Revenue Agency**
**Managing the Risks
of Non-Compliance for Customs**

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Canada Customs and Revenue Agency

Managing the Risks of Non-Compliance for Customs

Main Points

2.1 The events of September 11, 2001 have had a dramatic impact on the Canada Customs and Revenue Agency's Customs program and the Agency has faced many challenges as it seeks to deter and detect non-compliance at the border. In our April 2000 and December 2001 reports, we made several recommendations to the Agency for managing the risks of non-compliance for its Customs program. We found that the Agency has made substantial progress in implementing two of our recommendations. That is, the Agency is now collecting advance passenger information from most airlines to help it target high-risk air travellers and it is using a new system at airports that allows better screening of travellers.

2.2 In other cases, however, the Agency has only partially implemented our recommendations, even those that would help make the border more secure. We found that the Agency had developed a strategy for collecting information from other government entities about the risks that arise from the responsibilities it undertakes on their behalf and has started to collect this information. It has put in place an action plan to strengthen its compliance verification regime and has conducted a preliminary analysis of the results of completed compliance verifications to help identify high-risk areas of non-compliance. Until the strategy is fully implemented and a complete analysis is done, gaps will remain in the Agency's risk assessments, and border management and post-release verification plans.

2.3 The Agency has introduced tools to help customs officers determine their training needs. It has also developed new courses and continues to offer existing ones. However, customs officers continued to express concerns about their training and the Agency is unable to fully assess whether they have received the training they need. The Agency is developing an ambitious training program and long-term learning plan for its compliance verification officers in response to our December 2001 recommendations.

2.4 The Agency has not made any significant progress in collecting the information that would enable it to tell Parliament whether its risk management strategy is working or to support its assessment of how well it is achieving its objectives for the Customs program.

2.5 On 12 December 2001, the Canadian and American governments signed the Smart Border Declaration. The Declaration includes a 30-point *Action Plan for Creating a Secure and Smart Border* and the Agency is in charge of eight of the Action Plan's initiatives. Two of these are NEXUS and Free and Secure Trade (FAST), which are binational programs that are intended

to make it easier for low-risk travellers and commercial shipments to cross the border. In 2001 we were concerned that the Agency was planning to go ahead with a similar Canadian program for commercial shipments before solidly establishing its compliance verification regime that ensures that the importers involved comply with trade laws and regulations. The Agency has worked hard to improve the regime, but, in our view, it is not yet solidly established and the Agency needs to proceed with caution with its programs for commercial shipments.

2.6 We also found that the Agency has made progress implementing the other initiatives in the Action Plan. It has set up joint targeting units with United States customs officials to target in-transit marine containers, signed an agreement with the United States to share information on customs fraud, and completed a joint review of customs and immigration practices at international seaports. It has discovered some legal issues related to establishing joint border facilities with the United States and is studying them. As well, it is putting in place the mechanisms to enable the sharing of advance passenger information.

2.7 The Agency was allocated \$433 million over six years as part of the government's public security and anti-terrorism initiative. It analyzed why it needed the funds and what it expects to achieve with them, but it has not systematically tracked the actual spending.

The Agency has responded. The Agency agrees with our recommendations and has indicated the actions it has planned or has under way to address them.

Introduction

2.8 In April 2000 we reported the results of our audit of how the Canada Customs and Revenue Agency manages the risks at ports of entry for travellers entering Canada. In December 2001 we reported the results of our audit of how it manages the risks of non-compliance for commercial shipments entering the country. We identified several risk-management problems in both audits. This follow-up provides a status report on how well the Agency has improved its efforts to manage these risks. The Office also recently completed an audit that included how Citizenship and Immigration Canada manages immigration risks at ports of entry. The results of that audit were reported in the Auditor General's 2003 Report, Chapter 5, Citizenship and Immigration Canada—Control and Enforcement.

2.9 The Customs program is an important part of the Canada Customs and Revenue Agency. The Agency's 2002–03 *Report on Plans and Priorities* says the expected outcome of the Customs program is that "Canadians' health, safety, security, and business interests are protected, and Canada's economic growth is supported, through responsible border and trade management."

2.10 The Agency spends about 16 percent of its resources on the Customs program (Exhibit 2.1). Spending for the Customs program increased in 2002–03. However, it is projected to fall in the next two years, while the Agency's total planned spending will increase. About 8,300 people are employed by the Customs program, more than half of whom are uniformed customs officers. However, this number is expected to fall by 2004–05.

What we found in 2000 and 2001

2.11 Our 2000 audit found that the Agency was modernizing its Customs operations and using new technology. However, we found that it did not have an overall compliance strategy for its Customs program. We also found that while the Agency was using a risk management approach to determine which travellers present the greatest danger to Canadian society, its risk assessment was incomplete because it lacked important information from other

Exhibit 2.1 The Agency's resources for its Customs program and other business lines*

	Actual 2000–01	Actual 2001–02	Planned 2002–03	Planned 2003–04	Planned 2004–05
Customs services (\$ millions)	495.9	560.2	592.1**	533.2	527.6
All business lines (\$ millions)	3,101.5	3,399.3	3,363.8	3,364.5	3,431.9
Full-time equivalents—Customs services	7,206	7,348	8,398	8,174	8,075
Full-time equivalents—all business lines	43,173	45,729	47,551	47,498	48,028

* The Agency's other business lines are tax services, benefit programs and other services, appeals, and corporate management and direction.

** The planned spending for 2002–03 includes funding found in Budget Plan 2001 for public security and anti-terrorism initiatives.

Source: Canada Customs and Revenue Agency, Annual Reports to Parliament and 2002–03 *Report on Plans and Priorities*

departments and agencies. Finally, we found that customs officers at land borders and airports needed to be better equipped and trained to do their complex jobs.

2.12 Our 2001 audit found that the Agency had made it easier for importers to bring legitimate goods into Canada and had provided them with several options to process commercial shipments. However, it needed to improve its enforcement activities, specifically, identifying high-risk commercial shipments and analyzing the outcome of its activities. We also found that, after six years and a lot of effort, the Agency had made little headway in assessing how well importers were complying with Customs trade laws and regulations. However, the Agency was working on a revised approach that looked promising.

2.13 The House of Commons Standing Committee on Public Accounts held a hearing on our 2001 audit and issued a report on 12 December 2002. The Committee echoed many of our concerns and made six recommendations to the Agency. The government will be responding to the Committee's report in May 2003.

What has happened since 2001

2.14 The events of September 11, 2001 had a dramatic impact on the Customs program. Within hours of the attacks, ports of entry across Canada were placed on high alert, and customs officers were mobilized to process the many U.S.-destined planes that were diverted to Canada. In the days and weeks following the attacks, the Agency increased the screening of travellers and shipments to detect potential terrorist activities.

2.15 Since then, Canadian and American government departments and agencies have strengthened their partnerships to improve security and other services at the border, while facilitating the flow of legitimate people and goods. On 12 December 2001 the Smart Border Declaration was signed by both governments. The Declaration includes a 30-point *Action Plan for Creating a Secure and Smart Border* that is supported by these four pillars:

- the secure flow of people,
- the secure flow of goods,
- a secure infrastructure, and
- co-ordination and information sharing in the enforcement of the plan's objectives.

2.16 The Agency is in charge of implementing the following initiatives of the Action Plan:

- putting in place a single, alternative inspection system called NEXUS to enable pre-approved travellers to easily cross the border;
- sharing advance passenger information and passenger name records for air travellers;
- ensuring customs and immigration practices are in place at international seaports, including ferry terminals;

- putting in place harmonized commercial processing for the two-way movement of commercial goods from pre-approved traders;
- processing truck and rail cargo at locations away from the border to improve security and facilitate trade;
- creating joint border facilities in remote locations;
- sharing information on customs fraud with the United States and sharing other customs data under the terms of the North American Free Trade Agreement; and
- working with the United States Bureau of Customs and Border Protection to target high-risk marine containers that arrive at Canadian seaports on their way to the United States or that arrive at American seaports on their way to Canada.

2.17 As part of its public security and anti-terrorism initiative announced in the 2001 Budget, the government set aside \$433 million in funding over six years for the Agency to develop projects to increase the security of Canadians. Some of these projects have been expanded to binational initiatives in the 30-point Action Plan. Our Office intends to report in 2004 on the additional public security and anti-terrorism funding and how it was spent.

2.18 Since September 11, 2001, the Agency has faced many challenges and has spent a lot of time reviewing its border operations. Some of the initiatives that were part of the *Investing in the Future: The Customs Action Plan 2000–2004* are being implemented sooner than originally planned. In implementing the Smart Border Declaration, the Agency is focussing on increasing the level of co-operation with the United States and on binational programs. Border management is evolving quickly as both countries seek to improve security without impeding the free flow of legitimate goods and people.

Focus of the follow-up

2.19 The objective of our follow-up audit was to determine the progress the Agency has made in addressing the recommendations we made in our April 2000 and December 2001 reports and implementing the eight initiatives in the Smart Border Declaration's 30-point Action Plan for which Customs has the lead role. Although our previous audit work was completed before September 11, 2001, many of our recommendations were aimed at improving the way the Agency manages the risks it faces at the border and measuring how effectively this is done. We also wanted to determine whether the Agency had appropriately planned how it will spend its \$433 million portion of the \$7.7 billion set aside in the 2001 Budget under the government's public security and anti-terrorism initiative. The scope and criteria for this audit are set out in About the Follow-Up at the end of this chapter.

Observations

Compliance strategy

Implementation of the Compliance Improvement Plan is progressing slowly

2.20 In 2000 we found that the Agency did not have a compliance strategy for its Customs program that described its plans to encourage voluntary compliance, or that outlined its approach to responsible enforcement. A well-articulated, comprehensive strategy is a key element for promoting compliance and managing risk intelligently.

2.21 In 2001 we found that the Agency had introduced its Compliance Improvement Plan. The plan laid out a systematic method of managing the Customs program that is based on risk. It was supported by a border management plan, a post-release verification plan, and a client services plan. The Agency knew that it would be several years before the Compliance Improvement Plan reached its full potential. In particular, there were many information gaps that needed to be filled.

2.22 The 2002–03 Compliance Improvement Plan outlines the following:

- national customs priorities for border examinations of travellers and commercial shipments;
- compliance verifications of how well importers are following trade laws;
- client service activities to promote compliance, and
- investigations of smuggling and fraud.

Border examinations are conducted at ports of entry and focus on threats to Canadians' health, safety, and security, such as terrorism and contraband. The other activities outlined in the plan are usually done away from the border.

2.23 One of the goals of the Compliance Improvement Plan is to collect and analyze information about compliance trends so that the Agency can identify and address non-compliance appropriately. However, as the Agency stated in its annual report for the year ending 31 March 2002, it has not made as much progress with the Plan as it had expected. For example, it is still studying which baseline measures would be best for measuring and reporting on overall compliance levels. As well, information gaps continue to make it difficult to do the analysis. We encourage the Agency to press ahead with this initiative.

Assessing risk

2.24 When developing a compliance strategy it is important to understand the risks, determine how significant they are, and find the best way to control them. Every traveller and shipment that enters Canada presents a risk, although in most cases the Agency considers that risk to be low (Exhibit 2.2). In order to reduce delays as much as possible, the Agency's main focus at the border is checking health, safety, and security risks. Even so, examining each traveller and shipment is neither desirable nor practical. The Agency uses various techniques to focus on the travellers and shipments that present the greatest risk. In our April 2000 and December 2001 reports, we described some of these techniques, identified certain weaknesses, and recommended ways to improve them.

Exhibit 2.2 Every traveller and shipment that crosses the border presents a potential risk

Inadmissible people who will enter Canada:

- illegal migrants;
- terrorists;
- people with criminal records.

Illegal goods (contraband) that will enter Canada:

- cocaine, heroin, ecstasy, cannabis, and others;
- pornography, especially child pornography;
- weapons and firearms.

Restricted goods or goods needing permits that will enter Canada:

- alcohol and tobacco;
- endangered species;
- textiles, milk protein, and prescription drugs;
- hazardous waste;
- contaminated goods, like those with foot and mouth disease.

Travellers, importers, carriers, and drivers that make incorrect declarations (innocently or intentionally):

- incorrect answers to questions posed by customs officers;
 - incorrect description of goods, including country of origin, quantities, value, end-use, and tariff classification (important for targeting).
-

Risk assessment still has gaps

2.25 Customs performs a front-line function at ports of entry, enforcing its own laws and parts of those of other government entities. These include Citizenship and Immigration Canada, the Canadian Food Inspection Agency, and Environment Canada. In 2000 we found that the Agency's assessment of the risks that exist at ports of entry did not include information from other government entities about the risks that arise from the responsibilities it undertakes on their behalf. This year we found that the Agency had developed a strategy for an organized approach to gathering this information and using it in its Compliance Improvement Plan. We also found that it has started to collect information on other government entity risks and incorporate it into its border management and post-release verification plans. The Agency needs to implement the strategy in a timely manner so that its plans include the risk priorities of other government entities to help its officers focus their efforts on the areas of highest risk. In the longer term the Agency needs to integrate information on other government entity risks into its overall risk assessments.

2.26 In 2000 we recommended that the Agency complete or update, on a priority basis, memoranda of understanding (MOU) with other government entities on whose behalf it acts. This is important to help ensure roles and responsibilities are understood and information is communicated in a timely fashion. Discussions have since taken place and the Agency has told us that it plans to complete or update most key Customs-related MOUs with other

government entities by 31 March 2005. We note that MOUs have already been signed with five other entities. This includes the MOU with Citizenship and Immigration Canada that was signed on 6 March 2003.

Targeting of high-risk air passengers has improved

2.27 Customs uses targeting procedures to identify high-risk air travellers before they arrive in Canada. These procedures include comparing passenger names with databases that contain intelligence information, as well as information on previous customs or immigration infractions.

2.28 In 2000 we noted that some Customs targeting units received advance passenger information for air travellers on an ad hoc basis, at the carrier's discretion. We recommended that the Agency make obtaining advance passenger information a high priority.

2.29 Legislation was passed in 2001 that requires airlines to provide advance passenger information and passenger name records to the Canada Customs and Revenue Agency. Advance passenger information includes the full name, date of birth, citizenship, and a few travel document details. The passenger name record includes more detailed travel information such as all the destinations where the traveller flew and how the ticket was paid for. In October 2002, the Agency started collecting advance passenger information and it expects to begin collecting passenger name records in the summer of 2003. It is using this information to identify high-risk passengers and plans to keep it in a database for six years to help it and other agencies identify security, public health, and criminal threats. The Privacy Commissioner of Canada had raised concerns about the Agency's plans to keep the information, but these have been resolved.

2.30 The Agency also set up passenger targeting units at eight major Canadian airports to review information received and target high-risk passengers. Targeted passengers usually go through a secondary examination that entails more extensive questioning. Citizenship and Immigration Canada officers also work in three of these units and are expected to be working in all eight by the spring of 2003. The Agency and Citizenship and Immigration Canada are also working with the United States Bureau of Customs and Border Protection to share information on high-risk travellers. For example, joint passenger analysis units were set up at the Vancouver International Airport and the Miami International Airport in September 2002. These are pilot projects and will be evaluated in the spring of 2003.

2.31 When we visited Canadian airports in December 2002, we noted that customs officers were receiving limited advance passenger information from the airlines. Several airlines were still testing their ability to electronically transmit the information to the Agency. In the meantime, some airlines were faxing the information to the Agency. By March 2003 the situation had improved so that most airlines were transmitting their information electronically. However, one major airline was transmitting information about North American flights but not about most international flights. Until the

Agency receives passenger information electronically on the vast majority of passengers arriving in Canada, the targeting program will be constrained.

Pre-approval programs for low-risk travellers are moving ahead

2.32 A key objective of the Customs Action Plan 2000–2004 and the Smart Border Declaration is to pre-approve low-risk travellers to enable them to cross the border quickly so that customs officers can focus on other travellers who may be high-risk. There are two pre-approval programs for travellers:

- CANPASS—a Canadian program, and
- NEXUS—a joint Canadian-American program.

2.33 Land borders. In 2000 we reviewed the Agency's experience with the CANPASS—Highway program and noted that its potential had not been achieved. CANPASS—Highway has now been replaced by NEXUS Highway. Travellers who receive a NEXUS Highway card are considered low-risk by Canada and the United States and can use their card to enter either country. NEXUS Highway was first introduced at the Blue Water Bridge (Sarnia—Port Huron) in 2000 and was expanded to other locations in British Columbia and Ontario in 2002–03. The Blue Water Bridge pilot project was evaluated and the results were encouraging. The Agency needs to firm up its evaluation plans for the new locations so that it can be sure that the program's objectives are being met.

2.34 Airports. While CANPASS—Highway has been replaced with NEXUS Highway, the Agency plans to go ahead with its CANPASS—Air program for air travellers. This program had been piloted for several years at the Vancouver International Airport but had little success. A CANPASS—Air enrolment centre was opened in Vancouver in March 2003. The plans call for centres to be opened in other airports sometime in the future. The Agency is also planning to introduce NEXUS Air as a one-year pilot project at the Ottawa and Montréal airports in 2004.

2.35 The Agency has not conducted feasibility studies for either the CANPASS—Air initiative or the NEXUS Air initiative, although it is planning to conduct a marketing survey. We are concerned about this because such studies are needed to show whether these initiatives would be a worthwhile investment. We noted this same concern in 2000 with respect to the CANPASS—Highway program.

Targeting of high-risk commercial shipments needs further improvement

2.36 Identifying which commercial shipments present the highest risk of not complying with Canadian laws is an important part of enforcing those laws. It also allows low-risk shipments to enter Canada more easily. In 2001 we found some weaknesses in the targeting process, and recommended improvements. The Agency agreed to work on the improvements, provided the necessary systems and financial resources were available.

2.37 This year we found that few improvements had been made to address our concerns about targeting high-risk commercial shipments. At the same

time, the Agency has developed and delivered a course on targeting commercial shipments and has improved its targeting of in-transit marine containers. At one land border port, we also noted that there was an increased emphasis on targeting high-risk shipments and providing the necessary resources to do so. However, at another land border port, we noted that the targeting function had been eliminated and that customs officers were relying on information provided by the Agency's Contraband and Intelligence Services Directorate to target high-risk shipments.

2.38 We also found that the number of commercial shipment examinations had doubled between 1 April 2001 and 31 March 2002 over the previous year. This included an increase of 50 percent in the number of random examinations. However, we found that Customs did little to analyze the results of these random examinations, which could help it improve its targeting. As well, customs officers again told us that, if other operational priorities intervene, they pay less attention to conducting random examinations. This too could diminish the usefulness of random examinations in identifying potential high-risk targets.

2.39 Marine benchmarking study. One of the initiatives in the Smart Border Declaration is to review customs and immigration practices at international seaports, including ferry terminals. Officials from the Agency, Citizenship and Immigration Canada, the United States Customs Service, and the United States Immigration and Naturalization Service conducted the study and reported the results in May 2002. The objective of the study was to identify best practices, strengths, and weaknesses, and make recommendations. The next step in this project is to develop an action plan to address the recommendations.

2.40 Targeting marine containers. Many of the containers arriving at Canadian seaports are going to American destinations. Similarly, some containers arriving at American seaports are going to Canadian destinations. As part of their joint 30-point Action Plan, Canada and the United States are working to improve container inspection by targeting in-transit marine containers. Joint targeting units were set up in 2002 in Halifax; Montréal; Vancouver; Newark, New Jersey; and Seattle, Washington. At Canadian ports, American officers target containers going to the United States and these are examined by Canadian customs officers. At American ports, Canadian officers target containers going to Canada and these are examined by United States customs officers. Unit officers told us that the ability to exchange information helped them target high-risk containers. This initiative's effectiveness at finding inadmissible people or contraband has not been evaluated.

2.41 Sharing information on customs fraud. The 30-point Action Plan includes an initiative for both countries to share information about customs fraud. An agreement has been signed that sets out the terms and conditions under which such information can be shared. For example, the agreement states that only information on specific importers suspected of having

committed customs fraud in either country can be shared. To date, neither country has requested information covered in the agreement.

Initiatives for low-risk commercial shipments not supported by a solid compliance verification regime

2.42 A key objective of the Customs Action Plan 2000–2004 and the Smart Border Declaration is to enable low-risk commercial shipments to cross the border quickly so that customs officers can focus on other shipments that may be high-risk. This is accomplished by pre-approving importers, transportation companies, and drivers. There are two pre-approval programs for commercial shipments:

- Customs Self Assessment (CSA)—a Canadian program, and
- Free and Secure Trade (FAST) — a joint Canadian-American program.

2.43 Customs Self Assessment program. At the time of our 2001 audit, the Agency was planning to implement the CSA program. The program allows pre-approved importers to bring their shipments across the border quickly and account for them more easily. Importers, transportation companies, and drivers must all be pre-approved to participate in the program. Once the participants are approved, there is limited checking of shipments at the border. Rather, the Agency relies on its compliance verifications to ensure that importers have properly accounted for the goods and that they have paid all taxes and duties owing. Compliance verifications are critical in a self-assessment environment. In 2001 we were concerned that the Agency was planning to implement the CSA program before it had solidly established its compliance verification regime. The Standing Committee on Public Accounts expressed similar concerns and recommended in December 2002 that the CSA program be delayed.

2.44 However, the Agency had already gone ahead with the CSA program. To date, five large importers have been approved to use the program, as well as many transportation companies and drivers. These five companies import about 21 percent of the total value of all the goods imported into Canada. The Agency is targeting importer participation in the program, by 2005, that would represent 50 percent of the total value of all the goods imported into Canada. This would include about 1,000 large importers. As the participation rate in the CSA program increases, the risk of not discovering any non-compliance also increases if a solid compliance verification regime is not in place.

2.45 Since our 2001 audit, the Agency has put in place the framework to strengthen its compliance verification regime and measures to analyze compliance results. It has started to implement a new, two-part approach for verifying importers' compliance. However, in our view, the Agency has not yet solidly established its compliance verification regime (paragraphs 2.60 to 2.67). We remain concerned that it cannot adequately ensure that pre-approved importers are complying with Canada's trade laws and regulations.

2.46 Free and Secure Trade program. The Canadian and American governments have introduced a binational program called FAST to make it

easier for low-risk commercial shipments to cross the border. Importers, transportation companies, and drivers must all be pre-approved by the CSA program to participate in FAST. Application centres have been set up at several border crossings. To date, two importers have been approved under the FAST program. As with the CSA program, we are concerned that the Agency is pressing ahead with FAST before its compliance verification regime has been solidly established. In our view, the Agency needs to proceed cautiously with the CSA and FAST programs.

2.47 Moving the clearance process. The Smart Border Declaration's 30-point Action Plan also includes an initiative to move the clearance process away from the border. For example, Canadian and American customs officers could conduct their operations in one country or the other, at a shared facility. The goal of this initiative is to reduce delays at the border. Discussions have taken place between the Agency and the United States Bureau of Customs and Border Protection. However, some legal issues need to be worked out before a plan can be presented to officials, approved, and put in place.

Tools and training

2.48 Customs officers must administer Customs legislation and parts of laws that govern other departments and agencies. They must know about passport and visa requirements, as well as laws that cover a broad range of products and services. Customs officers who work at the primary inspection line must quickly decide whether to let travellers and commercial shipments go on their way, or send them for a secondary inspection where they will be questioned more extensively and, in some cases, examined.

2.49 Given the complexity of customs officers' jobs, it is vital that they have the information, tools, and training they need to make correct decisions quickly. In our 2000 and 2001 audits, we found that information was not consistently shared, systems that the officers relied on needed to be improved, and training was uneven.

Improved system used to process travellers at airports

2.50 Travellers arriving in Canada by air are asked to complete a Customs Declaration Card before they arrive at Customs. An officer reviews their declaration and conducts a brief interview.

2.51 In 2000 we found that one of the key systems that was used to help customs officers decide whether to send a traveller for a secondary examination was outdated and used less than 50 percent of the time. Since then, the Agency has installed the Integrated Primary Inspection Line System. This system is directly linked to databases at the Agency and at Citizenship and Immigration Canada so that customs officers have immediate access to "lookouts" and enforcement information. A lookout alerts customs officers to watch for particular individuals and to send them for a secondary examination. We found that officers were using this system for at least 90 percent of the air passengers they processed. This is a significant improvement over 2000.

Problems with system used to process travellers at land borders are unresolved

2.52 Travellers arriving in Canada at land border crossings remain in their vehicles while a customs officer interviews them. Declaration cards are not required at land border crossings. Travellers usually only need to show some form of identification.

2.53 At many land border crossings, customs officers use the Primary Automated Lookout System—Highway to screen travellers. The system reads licence plates and compares them with a Customs database to check for previous enforcement actions and/or lookouts. Officers can also use the system to check for immigration lookouts.

2.54 In 2000 we found that the system read licence plates correctly about 70 percent of the time. For the remaining 30 percent, customs officers had to manually correct the recorded information before the system was able to compare it with the database. We recommended that the Agency explore the possibility of improving the system. Although the Agency discussed the reliability of the licence-plate readers with the manufacturer, we have found no improvement. This is a concern because correcting the information diverts the officer's attention away from interviewing the occupants in a vehicle. This raises the risk that travellers that should be sent for a secondary examination are not. This risk is greater when the officer does not correct the licence plate reading.

2.55 We also note that the Agency's system is based on licence plate information and cannot automatically connect with Citizenship and Immigration Canada's lookout system, which is based on personal identification information. Unless customs officers enter an individual's name into the Primary Automated Lookout System, they are unlikely to know if there is an immigration lookout for that individual. But they are doing this less than 10 percent of the time. Instead, they rely on their judgment to decide whether to refer travellers to a secondary immigration examination.

2.56 Finally, we note that the Integrated Primary Inspection Line System used in airports is also available at 11 highway crossings to process individuals travelling by bus. It is also being tested at two highway crossings to process commercial truck drivers.

Concerns remain about controlling commercial shipments in Windsor

2.57 In 2001 we were concerned that the facility for examining commercial shipments at the Ambassador Bridge in Windsor is about two kilometres from the bridge. Unless officers escorted a truck from the bridge to the facility, which rarely happened, the Agency could not be sure that the truck went directly to the facility, or that no one had tampered with the shipment. The Standing Committee on Public Accounts was also concerned about this situation. In December 2002 it recommended that the Agency develop a solution as soon as possible and that a report containing options, solutions, and an action plan be written and tabled in the House of Commons no later than 31 March 2003.

2.58 This year we found that the Agency had issued a bulletin on escorting high-risk shipments in November 2001. Officials told us that escorts are used in high-risk situations when there is a specific lookout for a truck or driver, or when a customs officer is convinced the shipment or the driver is high-risk and is unlikely to go to the examination facility. We believe this is the same process that was followed in 2001.

2.59 The Agency plans to report on the Ambassador Bridge (as requested by the Standing Committee on Public Accounts) in the government's response to the Committee's report. It is expected to be tabled in the House of Commons in May 2003.

Interim measures being used to analyze results of compliance verifications

2.60 In 2001 we recommended that the Agency develop a national computer system to capture the results of all compliance verification activities. The Standing Committee on Public Accounts also stressed that the Agency should thoroughly assess its data and information systems requirements and take timely action to improve its information management systems for compliance verification.

2.61 Since then, we noted that the Customs Branch has developed a detailed business case for a national compliance verification reporting system, which is expected to cost about \$20 million over a five-year period. The next step in the process is to seek senior management's approval for the system and its funding.

2.62 As an interim measure, the Branch developed a spreadsheet-based process to capture the results of some of its verifications. In 2000–01 it conducted compliance verifications to check whether importers had classified and valued goods correctly. The Agency prepared a preliminary analysis of the results of 74 of these verifications that had looked at three high-risk commodities: textiles/apparel, steel, and footwear. The analysis showed an error rate that ranged from 25 to 31 percent for the classification of these commodities and from 19 to 27 percent for valuation. Agency officials indicated that based on these results, potential trade data errors could reach more than \$11 billion for these commodities. In 2001 we also noted high error rates of 29 percent for classification and 15 percent for valuation for all commodities. Accurate trade data are important for negotiating and monitoring trade agreements and are used by businesses to make domestic and foreign investment decisions.

2.63 We were encouraged that the Agency had done this analysis to identify compliance problems, and had used it to plan its compliance verification activities for 2002–03. But the Agency did other verifications in 2000–01. However, because the spreadsheet is not yet fully developed, the Agency did not analyze the results of those verifications to identify high-risk areas of non-compliance. As the new reporting system is developed and the results of more compliance verifications are collected and analyzed for subsequent years, the Agency should be in a better position to determine the degree of compliance

with trade laws and regulations, and whether compliance has improved or deteriorated.

New approach to verifying importers' compliance is partially implemented

2.64 At the time of our 2001 audit, the Agency was piloting a new, two-part approach for verifying importers' compliance because it had experienced great difficulty implementing the previous approach. This approach includes compliance assessment reviews and a new verification process. A compliance assessment review is designed to measure an importer's level of compliance and to identify areas where the importer is most likely to be non-compliant. The new verification process involves detailed testing of identified high-risk areas to determine the extent of non-compliance. The testing of the methodology and most of the training of compliance verification officers in all regions were completed in November 2001. Interim guides were also provided to compliance verification officers to help them conduct the verifications.

2.65 Since our 2001 audit, about 260 compliance assessment reviews have been completed. Officials have done a limited analysis of the results of those reviews. However, they were unable to tell us how many new verification processes had been conducted as a result of the risks identified by compliance assessment reviews.

2.66 In February 2002, the Agency developed a comprehensive, three-year action plan for managing the implementation of compliance assessment reviews and the new verification process. The plan outlined several components that are still being developed, including the following:

- creating the trade verification manual,
- creating a verification report template,
- developing time standards for compliance assessment reviews and the new verification process,
- enhancing client profile procedures, and
- developing a quality assurance framework.

The action plan laid out the work needed to implement the new approach, which is critical to strengthening the compliance verification regime.

2.67 Progress has been made in implementing compliance assessment reviews and the new verification process. However, it is too early to determine the effectiveness of the new approach since the results of verifications have not yet been collected, reviewed, or analyzed. As part of the action plan, the Agency indicated that it will evaluate the methodology for compliance assessment reviews and the new verification process in 2003–04.

Slow progress in improving customs officer training

2.68 Training provides customs officers with the knowledge and skills they need to do their complex jobs. The Agency has designed several courses for officers. They are offered at the Agency training facility in Rigaud, Quebec, as well as in regional offices and at ports. Some courses are mandatory, such as the eight-week induction course for new recruits. Officers are then expected

to take additional mandatory training, depending on the area in which they will be working. For example, there is a three-to-five day course for processing land or air travellers, and a three-week course for processing commercial shipments. Other mandatory and discretionary courses are also offered on several topics.

2.69 In 2000 we were concerned that the training needs of all employees were not being assessed on a regular basis, that training plans were not being developed each year, and that the Agency did not keep complete training records. Since then, the Agency has introduced a competency profile for customs officers. This profile helps officers determine where they have training needs. We found that about 20 percent of officers had used the competency profile.

2.70 We also found that about half of the officers have completed an individual learning plan. The plan, which is approved by the officer's supervisor, identifies the formal and informal training that the officer would like to take to be able to do a better job. However, more than two thirds of the officers we surveyed indicated that they were not aware of the training courses being offered, and about half said that their supervisor did not take a proactive role in helping them determine their training needs. Better information about when and where courses are being offered and more active participation by supervisors would improve the learning plans. We also noted that the Agency does not have an accurate record of the courses its officers have taken. This means that it is unable to fully assess whether employees have received the training they need.

2.71 In 2000 we recommended that appropriate training be provided in a timely manner. The Agency has continued to offer its existing courses and has prepared and delivered new courses to inform its officers about changes in laws, and to teach them how to use new equipment and systems, and how to deal with new threats. For example, over 60 percent of officers have received training on the recent changes to the *Immigration and Refugee Protection Act*. As well, the Agency recently developed a one-day training course on chemical, biological, radiological, nuclear, and explosive threats, which has been delivered to over 85 percent of its customs officers. At the same time, officers told us that they did not have sufficient training to detect fraudulent documents or use new drug identification tools and technologies. They also said that they had not received refresher training in key areas which they felt they needed to keep their skills up-to-date. Furthermore, many officers indicated that they did not receive the training they needed to do their jobs when they needed it. They also told us that training was often allocated on an ad hoc or preferential basis, or only if it did not require travel and overtime costs. In our view, training should be allocated based on need.

2.72 The Agency is expanding its self-directed training courses to provide “just-in-time” learning as close to the workplace as possible. Training officials told us that officers who took these courses said that they had improved their understanding of the area they had studied. At the same time, about 60 percent of officers told us that they were concerned about the

effectiveness of this type of training. Officers said that there are not enough computers or training hours available, there are constant interruptions, and there is little opportunity to ask questions and discuss the material with colleagues. We encourage the Agency to take these concerns into account as it develops more self-directed learning courses and particularly if the subject matter is complex.

2.73 In 2000 we were concerned that students were not being trained consistently across the country. We noted that headquarters had developed a three-week course for new students, but that local ports sometimes shortened it to two weeks. We also noted that after classroom training, students were expected to “shadow” a customs officer. However, the time spent shadowing an officer varied from one day to one week. This year we found that students were still receiving two to three weeks of training and that the time spent shadowing varied from one location to another. In 2001–02 the Agency employed approximately 1,200 student customs officers. Because they make critical decisions at the primary inspection line, we remain concerned that the inconsistent training of students could pose an unnecessary risk for Customs.

Compliance verification officer training has moved forward

2.74 In 2001 we identified several concerns related to the training of compliance verification officers. Since then, we noted that the Agency has worked to improve training by doing the following:

- In the spring of 2002, the Agency conducted focus groups in Calgary, Montréal, and Toronto with compliance verification officers who had various levels of expertise to determine their training needs.
- In September 2002 the Agency drafted a long-term learning plan. The plan was approved by headquarters and regional compliance verification directors and is to be presented to the Customs management committee for approval by June 2003.

2.75 The Agency outlined in its learning plan that it would develop and pilot an apprenticeship program; determine a core curriculum for beginner, intermediate, and senior compliance verification officers; and ensure that the training provided is appropriate and timely, and that it will be evaluated.

2.76 To build the long-term training framework, the Agency has also

- developed an introductory course for compliance verification officers and delivered several of these sessions, mostly to new officers;
- developed, piloted, and finalized for national use a basic accounting course, as well as completed the related trainer’s course;
- started to develop an intermediate-level accounting course for 2003–04; and
- targeted the development of an advanced-level accounting course and an auditing course for 2004–05.

2.77 We are encouraged by these steps. However, we are concerned that the proposed development date for the introductory-level auditing course has been moved several times and is now targeted for 2004–05. Compliance verification officers need to have a sound knowledge of auditing techniques, in addition to accounting practices and trade regulations. We believe that the Agency needs to develop the auditing course sooner so that the training framework provides a solid foundation for training compliance verification officers.

Improving border security

Plans for spending public security and anti-terrorism funds

2.78 The federal government announced in its 2001 Budget that it would spend \$7.7 billion between 2001–02 and 2006–07 to enhance the personal and economic security of Canadians. The goals of the spending were to keep Canadians safe, terrorists out of Canada, and Canada's borders secure, open, and efficient. The Agency's share of the funding was \$433 million (Exhibit 2.3).

Exhibit 2.3 How the Agency plans to spend its funding for public security and anti-terrorism (\$ millions)

	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	Total
Public Security—hiring and training new customs officers	40	17	16	16	16	16	121
Better tools for assessing risk and detecting inadmissible people							
• Advance passenger information	6	11	10	9	9	9	54
• Integrated Primary Inspection Line System	4	11	5	3	3	3	29
• Intelligence Management System	2	2	2	1	1	1	9
Strengthening technology at airports and seaports	7	54	17	16	14	14	122
Customs-controlled areas at airports	5	5	5	4	4	4	27
Better service to small business	—	5	5	2	2	1	15
Sub-total	64	105	60	51	49	48	377
Expediting pre-approved travellers*	—	15	15	12	8	8	58
	64	120	75	63	57	56	435
Less: Allocation to Justice							2
Agency total							433

* The December 2001 Budget included estimated costs for expediting pre-approved travellers that were originally intended to be full cost-recovery initiatives. The Agency plans to fund these initiatives through user fees and internal sources.

Source: Canada Customs and Revenue Agency

2.79 The Agency has allocated this funding to the following projects:

- hiring and training new customs officers to provide enhanced vigilance at all border locations;
- developing and using the advance passenger information and passenger name record targeting and analysis tools;
- acquiring additional equipment for the Integrated Primary Inspection Line System and installing the system at additional locations;
- implementing the Customs Intelligence Management System used to identify high-risk individuals and organizations;
- acquiring additional equipment such as x-ray machines to be used at international airports and seaports, as well as developing new systems to improve risk assessment;
- acquiring new equipment for areas in international airports that are controlled by Customs, and hiring and training new customs officers to work in those areas;
- improving service to small businesses through new Internet applications and dedicated client services officers; and
- expanding the NEXUS Highway program and developing the CANPASS—Air program to expedite pre-approved travellers.

One of these projects—NEXUS Highway—is also an initiative in the 30-point Action Plan. The funding for another project—advance passenger information—is to support a Canadian implementation. This project has been expanded to a binational initiative in the 30-point Action Plan, and the Agency is seeking additional funding. Similarly, the funding for CANPASS—Air is to support a Canadian implementation. This project has been expanded to NEXUS Air, a binational initiative in the 30-point Action Plan for which the Agency is seeking additional funding.

2.80 The Treasury Board has approved the Agency's original funding requests for all of the projects except the last one, expediting pre-approved travellers. The Agency plans to fund that project through user fees and internal sources. We reviewed the funding requests and found that the Agency had analyzed why the funds were needed and had set out the results the Agency expected to deliver. This was supported by a description of the risks, calculations of the resources needed to achieve the goals for each project, and any assumptions made in preparing the calculations.

2.81 While it is too early to determine what has been accomplished to date, we found that the Agency has not systematically tracked its spending on these projects. We are concerned that it will not be able to fully account for how the funds have been spent.

Measuring performance

Improvements to performance measures are at the planning stage

2.82 The expected outcomes of the Customs program are to protect Canadians' health, safety, security, and business interests, and support Canada's economic growth through responsible border and trade

management. We expected that the Agency would have performance measures in place to show how well it is achieving these outcomes.

2.83 In 2000 and 2001 we noted that there were many gaps in the Agency's performance measures for its Customs program. We recommended several improvements, including that the Agency should collect the information it needs to assess how effective its risk management approach is.

2.84 Since we conducted our audits, the Canada Customs and Revenue Agency has presented two annual reports to Parliament. Under the *Canada Customs and Revenue Agency Act*, the Auditor General is required to assess the fairness and reliability of the performance information in the annual report.

2.85 The Agency's report for the year ending 31 March 2002 recognizes that its conclusions about the performance of its Customs program are based largely on a qualitative assessment and that more work is needed to develop comprehensive performance indicators. Nevertheless, the Agency concluded that it had mostly met its anticipated results for its Customs program. The Agency plans to address the weaknesses in its Customs performance measures.

2.86 The Standing Committee on Public Accounts expects the Agency to develop a comprehensive performance measurement regime and to gather and use quantitative information to reinforce its management practices and accountability reporting. We agree with the Committee's expectations. While we recognize that this is a long-term project, we expect to see progress each year.

Conclusion and Recommendations

2.87 Overall, the Agency is making satisfactory progress in implementing the recommendations from our 2000 and 2001 audits of the Customs program. It has substantially implemented two of our recommendations. That is, it is now collecting and using advance passenger information and it is using a new system to better screen air travellers. However, there is still much to be done in several critical areas. These include integrating the risks of other government entities into Customs risk assessments, analyzing examination results to provide better information for targeting high-risk travellers and shipments, analyzing compliance verification results to identify high-risk areas of non-compliance, and ensuring customs officers get the training they need in a timely manner.

2.88 With respect to the Smart Border Declaration's 30-point Action Plan, the Agency has made good progress in implementing the initiatives for targeting in-transit marine shipments, implementing the NEXUS program for low-risk travellers, and sharing information on customs fraud with the United States. As well, some progress has been made to implement the other five initiatives in the Action Plan.

2.89 The Agency has appropriately planned (except in the area of accountability) how it will spend its \$433 million share of the funding for the government's public security and anti-terrorism initiative. It has not systematically tracked its spending on these projects and will likely not be able to fully account for how the funds have been spent.

2.90 Recommendation. The Agency should complete the implementation of the recommendations from our 2000 and 2001 reports in a timely manner.

Agency's response. We agree with the Office of the Auditor General that we are making satisfactory progress in implementing the recommendations from the Office's 2000 and 2001 audits of our Customs program.

The Agency agrees with the recommendation and will continue to work on implementing the action plans that have been prepared to respond to the two audits under review.

The Agency has implemented NEXUS, advance passenger information/passenger name record, Free and Secure Trade (FAST), and the Customs Self Assessment program as alternative ways to process travellers and commercial shipments. CANPASS—Air will be implemented in the summer of 2003. The Agency plans to monitor the results of these initiatives in the next fiscal year.

2.91 Recommendation. The Agency should complete the implementation of the eight initiatives in the 30-point Action Plan for which Customs has the lead role, taking into account the observations made in this chapter.

Agency's response. The Agency agrees with the Office of the Auditor General that we are making good progress with respect to the Smart Border Declaration's 30-point Action Plan.

The Agency has made good progress in implementing the following initiatives: NEXUS Highway; NEXUS Air; advance passenger information/passenger name record; FAST; and in the exchange of trade data with the United States Bureau of Customs and Border Protection; in the marine benchmarking study, which has been completed; and in targeting in-transit marine containers. We will continue to work on these initiatives to ensure that border security is maintained and enhanced.

2.92 Recommendation. The Agency should track the spending and results achieved on the public security and anti-terrorism initiative.

Agency's response. We agree with the Office of the Auditor General that the Agency has appropriately planned how it will spend its \$433 million share of the funding for the government's public security and anti-terrorism initiative.

The Agency agrees with this recommendation and will work toward keeping better track of Agency spending on the public security and anti-terrorism initiative. The Agency will improve the system in this regard.

About the Follow-Up

Objectives

To determine the progress the Canada Customs and Revenue Agency has made to address the recommendations we made in our April 2000 and December 2001 reports, and to implement the eight initiatives in the Smart Border Declaration's 30-point Action Plan for which Customs has the lead role.

To determine whether the Agency had appropriately planned how it will spend its \$433 million portion of the \$7.7 billion set aside in the 2001 Budget under the government's public security and anti-terrorism initiative.

Scope and approach

Our follow-up audit covered the recommendations and supporting observations in our 2000 Report, Chapter 5, Travellers to Canada: Managing the Risks at Ports of Entry and our 2001 Report, Chapter 8, Managing the Risks of Non-Compliance for Commercial Shipments Entering Canada. We also reviewed the eight initiatives in the Smart Border Declaration's 30-point Action Plan for which the Agency has the lead role and the Agency's plans for spending the \$433 million it was allocated under the government's public security and anti-terrorism initiative.

We interviewed Agency officials in Ottawa and in selected ports of entry. We also analyzed data provided by the Agency, and conducted a statistical survey of customs officers working at ports of entry to obtain their opinions on training. Our survey estimates at the national level are accurate within plus or minus 6 percent, 19 times out of 20.

Criteria

We expected that the Canada Customs and Revenue Agency would have made satisfactory progress in implementing our recommendations.

The criteria from the 2000 and 2001 audits remain relevant. Therefore, we expected that Customs would have done the following:

- put in place risk assessment and targeting processes that effectively differentiate between low-risk and high-risk travellers and commercial shipments;
- appropriately planned and implemented its new initiatives in alternative ways to process travellers and commercial shipments, and monitored results to ensure that it is reaching its goals;
- put in place mechanisms and processes to ensure that it is appropriately managing risks arising from the responsibilities it carries out on behalf of other government entities;
- ensured that management and staff are able to acquire and maintain the knowledge and skills they need to fulfill their role in risk management;
- clearly stated its risk management strategy and established appropriate criteria to assess the risks associated with the movement of people and goods across the border;
- designed, implemented, and monitored a post-release verification regime to ensure compliance;
- measured and reported on the results of its traveller and commercial programs for purposes of accountability and continuous improvement; and
- designed an action plan for spending the public security and anti-terrorism funding that includes a needs analysis, expected results, resource requirements, risks, assumptions, and accountabilities for each project.

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Chapter

3

Citizenship and Immigration Canada
The Economic Component of the
Canadian Immigration Program

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

Main Points

3.1 In our 2000 audit on the economic component of the Canadian Immigration Program, we noted serious problems in the management and delivery of the Program. Many of the issues we raised in that audit have been addressed by the new *Immigration and Refugee Protection Act* and the *Immigration and Refugee Protection Regulations*. As most of the provisions came into effect 28 June 2002, it is still too early to assess the impact of the new act and regulations on some of the issues.

3.2 Citizenship and Immigration Canada has taken a number of steps with regard to medical surveillance including establishing a Medical Surveillance Unit in a new Medical Services Branch. However, we are still concerned that the Department does not know what percentage of immigrants comply with medical surveillance requirements and within what time frame. It is important that the Department ensure that immigrants under medical surveillance report to the relevant public health authorities and thus comply with the conditions attached to their visas. We also identified a new issue—refugee claimants and public health authorities in the provinces and territories are not notified when a claimant requires medical surveillance for inactive tuberculosis.

3.3 Although the Department is developing a method and strategy for quality assurance, we observed that a department-wide quality assurance framework to monitor the quality of selection decisions for the economic component has not been implemented. This framework is essential to ensure the consistency, fairness, and integrity of selection decisions.

3.4 Many applicants apply to offices outside their country of residence, hoping that their wait will be shorter than in their own country. The new *Immigration and Refugee Protection Regulations* permit the Department to greatly reduce offshore processing. At the time of our field work, offices abroad were still accepting offshore applications. The Department has now issued instructions to offices abroad to implement the regulation dealing with offshore processing on 1 May 2003.

3.5 The Department has made progress in how it controls revenue. The Department has developed a new Permanent Resident Card; however, problems still exist with controls over visa forms. It has made progress in updating information technology and has strengthened the internal audit function.

3.6 The Department has made progress in improving its ability to determine inadmissibility for reasons of criminality and security.

3.7 The new act and regulations also address other issues we raised in 2000 by:

- barring applicants deemed inadmissible due to misrepresentation from re-applying for two years;
- defining “excessive demand” for health and social services; and
- allowing for application for non-disclosure of information during admissibility hearings, immigration appeals, and judicial reviews.

3.8 The new act addresses some other areas; for example, criteria and tools for selecting skilled worker and business immigrants, and initiatives to assist visa officers in determining whether documents are fraudulent. However it is too soon for us to assess the impact of the legislation on these areas.

3.9 In its reports to Parliament, the Department indicated that 137,119 skilled workers entered Canada in 2001. We are concerned that this information may be misunderstood. The information would be more clearly presented as 137,119 skilled workers, 58,860 of that number being principal applicants and 78,259 their dependants.

The Department has responded. Citizenship and Immigration Canada agrees with our recommendations and continues to act on recommendations from the 2000 audit that have not yet been fully implemented.

Introduction

3.10 In our 2000 Report we examined the economic component of the Canadian Immigration Program. The economic component consists mainly of skilled workers and business immigrants. Business immigrants consist of investors, entrepreneurs, and the self-employed.

3.11 The Program recruits highly qualified people who could adapt to our society and contribute to our economy. But the problems in the management and delivery of the Program that we noted in our Report limited Canada's ability to make the most of the economic and social benefits that immigration affords. They also limit Canada's ability to protect the integrity of the Immigration Program. This is our first follow-up to that Report.

3.12 Since we tabled that Report the government passed the *Immigration and Refugee Protection Act* and the *Immigration and Refugee Protection Regulations*. This was the first major overhaul of the *Immigration Act* in some 25 years. The Department's senior managers were very involved in the past few years with the preparation and passage of the new legislation. Following extensive consultations with Canadians, the Department prepared a document in 1999 that served as the basis for discussion with the provinces, federal partners, and Canadians. The Act was passed in the fall of 2001, with most provisions coming into effect on 28 June 2002.

3.13 On 31 December 2002 the Department had 91 service locations throughout the world to serve various geographic areas. For example, London is responsible for processing cases from the United Kingdom, Ireland, and the Nordic and Gulf countries. New Delhi is responsible for processing cases from India, Nepal, and Bhutan.

Focus of the follow-up

3.14 The objective of this follow-up was to determine what actions the Department has taken in response to the observations and recommendations made in our April 2000 Report on the economic component of the Canadian Immigration Program. We also audited medical surveillance procedures for refugee claimants in Canada. We reviewed two status reports prepared by the Department on actions it has taken or is planning. Further references in this chapter are to the second status report. Further details about the follow-up can be found in About the Follow-Up at the end of the chapter.

Observations and Recommendations

3.15 Many of the recommendations that we made in the 2000 Report have been dealt with by the new *Immigration and Refugee Protection Act* (IRPA) and its accompanying regulations (Exhibit 3.1). Each of these recommendations is discussed in more detail in the chapter.

3.16 Immigration levels. Citizenship and Immigration Canada is meeting its planned overall immigration levels (Exhibit 3.2). The Department has

developed a resource allocation model to identify the level of resources it requires to process applications in offices abroad. Immigration uses the model to estimate the number of visa officers it needs to meet its planned immigration levels.

Selection decisions

Selection criteria have been amended

3.17 In 2000 we recommended that selection criteria for choosing which economic immigrants Canada accepts be amended to make them more

Exhibit 3.1 Recommendations from our April 2000 audit that were dealt with by the new *Immigration and Refugee Protection Act (IRPA)* and its regulations

Issue	Recommendation	IRPA or regulations	Description
Selection criteria	The Department should amend selection criteria to make them conducive to rigorous selection and achievement of objectives.	Regulations 73–109	Criteria amended to allow for more objective assessment based on consistent standards, and the selection of immigrants based on ability to establish successfully in Canada
Selection tools	The Department should ensure that visa officers have the necessary tools and means to help them make their selection decisions efficiently and effectively.	Regulations 78 and 79	Education points awarded based on having both a credential and a minimum number of years of education and formal training Skilled workers' language proficiency assessed either by a designated third party organization or institution, or by other evidence submitted in writing
Misrepresentation	The Department should establish and implement a strategy to reduce to an acceptable and manageable level the risk that applicants will submit false statements or fraudulent documents.	IRPA sections 40(1) and 40(2)	Applicants deemed inadmissible because of misrepresentation cannot re-apply for a period of two years
Excessive demand	There is a need to define the term "excessive demand" to ensure compliance with the Act.	Regulation 1(1)	Excessive demand defined as needing more than the average Canadian per capita cost for health care over 5–10 years
Protection of information	The Department, with the RCMP and CSIS, should ensure that in determining admissibility, they have the tools to allow them to use information whose source or nature cannot be disclosed, while ensuring that applicants are treated fairly.	IRPA sections 76, 86, and 87	Minister may make application for non-disclosure of information during admissibility hearings, immigration appeals, and judicial reviews
Offshore processing	The Department should ensure that applications are processed in the offices that have the necessary skills to make informed and consistent decisions.	Regulation 11(1)	Application for a Permanent Resident Visa must be made to the immigration office that serves the country where the applicant has been residing for at least one year or the applicant's country of nationality or habitual residence

objective and in line with the Immigration Program's objectives. The Department stated that it was redesigning the selection system and the new model would shift from the current system that selects skilled workers based on their occupations to a system based on the workers' sound and transferable skill sets. Selection criteria have been amended in the new act (Appendix). At the time of our field work, the Department's experience using the new selection criteria was limited because the new act had only been in place several months. It is too soon for us to assess the impact of the new criteria on departmental operations.

Tools developed and training for visa officers improved

3.18 In the 2000 Report we noted that the lack of certain basic tools that would help visa officers in their decision-making hindered the efficiency and effectiveness of the Department's operations. For example, officers used their individual judgments to evaluate applicants' English or French. No tools existed to help officers readily assess education and employment training. Officers conducted their own research. They evaluated applicants' language skills, academic training, and work experience based on interviews—one of the most costly and time-consuming activities in the processing of applications.

3.19 In our 2000 audit we noted that the training of visa officers was insufficient in several respects. We recommended that the Department review its overall training strategy and ensure that all those responsible for immigration decisions receive appropriate training.

Exhibit 3.2 Planned immigration levels and landings of principal applicants and dependants

	2000		2001		2002
	Planned levels	Landings	Planned levels	Landings	Planned levels
Economic component					
Skilled workers	100,500–113,300	118,463	100,500–113,300	137,119	115,800–125,300
Business	15,000–16,000	13,655	15,000–16,000	14,579	12,000–13,000
Others*	5,400	4,496	5,400	4,102	3,200–4,300
Total economic component	120,900–134,700	136,614	120,900–134,700	155,800	131,000–142,600
Family	57,000–61,000	60,515	57,000–61,000	66,647	56,000–62,000
Refugees	22,100–29,300	26,747	22,100–29,300	26,530	23,000–30,400
Kosovo refugees and others	–	3,333	–	1,369	–
Total immigration	200,000–225,000	227,209	200,000–225,000	250,346	210,000–235,000

*Numbers from 2000 and 2001 have been restated to align with IRPA categories. Includes provincial and territorial nominees and live-in caregivers.

Source: Citizenship and Immigration Canada

Arranged employment: An offer of indeterminate employment in Canada

3.20 New selection tools developed. The Department has developed some new tools to assist officers assessing applications under the *Immigration and Refugee Protection Act*. In addition, the Regulations are designed to enable the visa officer to make an objective assessment. For example, the Act encourages economic applicants to submit a language test administered by a third party. If applicants do not submit this type of test result, then they must submit a written explanation and supporting documents to show evidence of their language ability. The Regulations state that Human Resources Development Canada can pre-approve arranged employment. The Regulations require officers to assess education based on standards that exist in the country of study. The standards consist of credentials and the number of years of education and formal training. At the time of our field work, the Department's experience using the new selection tools was limited because the new act had only been in place several months. The Department expects that these tools will help reduce the need for interviews to assess language skills and education.

3.21 Progress in training visa officers. The Department has spent a considerable amount of time and energy developing and improving training courses; for example, courses for local staff and courses on litigation management. Course evaluations that we reviewed indicated that courses were generally well received. The new act's implementation required an extensive, co-ordinated training effort by the Department. Staff at each office abroad were selected to become trainers. They trained at departmental headquarters in Canada and on return to their offices abroad trained the remaining staff and provided ongoing support. Other initiatives included new manuals available electronically, messages on procedures distributed electronically, an IRPA intranet site established, and two IRPA help desks established for several months: one for calls from locations in Canada; the other for calls from offices abroad. Many officers rated highly the training they received on the new act although most indicated they would need to re-familiarize themselves with the course material before starting the new processing of skilled workers, which would be several months later.

3.22 Satisfactory progress in litigation management. In some cases a judicial review by the Federal Court may direct Immigration to re-examine a refused application. Our previous audit noted an increase in such cases and the heavy demand on resources that resulted. The Department's status report noted several initiatives in this area.

3.23 The Department has placed more emphasis on managing litigation issues. Initiatives include litigation management newsletters, annual visa litigation reports, a guide to cross-examination for visa officers, and form letters for accepting and refusing applications. For litigation management training, initiatives include a revised course for visa officers and joint training with the Department of Justice. Citizenship and Immigration Canada's visa litigation reports for 2000 and 2001 indicate that judicial reviews have decreased slightly and the Department's success rate in Federal Court has increased slightly since our last audit.

3.24 Tools and training for assessing business immigrants' applications are being developed. Assessing business immigration applications requires a certain level of business knowledge and expertise. In 2001, 14,579 business immigrants, consisting of principal applicants and their dependants, landed in Canada. This is about nine per cent of the economic immigrants who landed that year.

3.25 The Department is developing a tool that third parties will use to assess the business performance of applicants. Visa officers could then use this assessment as part of their overall evaluation of the application. At the time of our audit this tool was not complete.

3.26 With the implementation of the *Immigration and Refugee Protection Act*, Business Immigration Centres no longer exist. All offices abroad now accept and process business applications. There is a need for training in this area, as most of the visa officers have little experience with business applications. There is no specific course for business applications but they are included as part of other courses. Course evaluations that we reviewed recommended expanding the section on business immigrants. Business application training was included as part of IRPA training and a new module was developed for the visa officer course given in the winter of 2003.

Medical inadmissibility and surveillance

3.27 Our 2000 Report had concerns about medical inadmissibility. The Internal Audit and Disclosures Branch at Citizenship and Immigration Canada is planning an audit of designated medical practitioners abroad; therefore, we did not follow up on that area. We limited our follow-up mainly to observations made in 2000 on medical surveillance in Canada.

3.28 The Department formed a Medical Services Branch in 2001 that unified the management of all areas of the Department that dealt with issues of medical admissibility and medical surveillance.

Excessive demand has been defined

3.29 We observed in our 2000 Report that the Department had been trying for more than 10 years to define the term "excessive demand." The new regulations define the term: an applicant is considered inadmissible if it might be reasonably expected that the applicant's health condition would cause excessive demand on Canadian health or social services, or if it would add to existing waiting lists and would increase the rate of mortality in Canada. When determining whether an applicant is likely to create excessive demand, the costs of anticipated health and social services for that applicant are compared against the average Canadian per capita health and social services costs for the next five years. If the applicant is likely to cost these services a significant amount for more than 5 years, then the Department will continue comparing costs up to 10 years.

Advice on medical testing and surveillance not yet received

3.30 Health Canada advises Citizenship and Immigration Canada on which diseases should come under mandatory surveillance. In 2001 and 2003 Health Canada advised the Department on issues related to HIV testing. In 2001 Health Canada advised the Department that immigrants should be

tested for HIV. At the same time, Health Canada advised the Department that it would provide advice soon on whether immigrants with hepatitis B require medical surveillance. In April 2002 the Department asked Health Canada whether long-staying visitors or visitors who work in close contact with Canadians should be tested for HIV. The Department also asked for Health Canada's recommended approach to hepatitis B for immigrants. That advice is still outstanding.

Medical surveillance of immigrants

3.31 Some immigrants are medically admissible to Canada even though their conditions present certain problems. In these cases, departmental physicians have found that while the applicants do not pose an immediate health threat to Canadians, they need to be kept under medical surveillance by the appropriate authorities once in Canada. Immigrants requiring medical surveillance must report to public health authorities within 30 days of arriving in Canada. Non-active tuberculosis and syphilis are the two diseases that require medical surveillance.

3.32 The Department's main role in the medical surveillance program is to provide information to public health authorities on immigrants requiring medical surveillance, including their date of arrival in Canada. In our 2000 Report we noted that we were seriously concerned about an internal review reported in October 1999. The review concluded that the Department did not know the percentage of immigrants that complies with medical surveillance requirements or whether provincial and territorial health authorities receive a complete list of immigrants who require medical surveillance.

3.33 The Department has taken several steps to improve medical surveillance. It has

- Established a Medical Surveillance Unit.
- Produced an instructional handout for immigrants about medical surveillance. The handouts are intended for all immigrants requiring medical surveillance.
- Standardized the medical surveillance form.
- Issued an operations memorandum on medical surveillance roles and responsibilities in February 2002 to key players, including those at visa offices and ports of entry, to encourage consistent procedures for surveillance notification.
- Worked with the provinces and territories and established a toll-free number in each province for immigrants.

3.34 The need for compliance data. The Department needs to know if immigrants requiring medical surveillance are complying with the requirement to report to public health authorities. It is working with provincial and territorial public health authorities to receive written confirmation if and when immigrants report to the authorities. To date, the timeliness and methods of written confirmation vary. The Department has not yet collected compliance data on the percentage of immigrants that

report to the authorities and within what timeframe, but is building a database for that purpose.

3.35 Our field visits indicated that immigration officers at airports were familiar with and understood the new instructions. However, some officers at land borders were not familiar with them or their importance. After our field visits, the Medical Surveillance Unit provided training to immigration officers at airports in Vancouver, Toronto, Edmonton, and Calgary and at Ontario land borders at Fort Erie, Niagara Falls, and Windsor.

3.36 If the Department finds out that an immigrant is delinquent in reporting for medical surveillance, it takes no action apart from making a remark in the Field Operations Support System. The Department denies further actions such as citizenship or sponsorship until the immigrant resumes medical surveillance.

Medical surveillance of refugee claimants

3.37 Lack of medical surveillance for cases of inactive tuberculosis among refugee claimants. When refugee claimants arrive at Canadian ports of entry, they have not had a medical examination or medical assessment as have immigrants. As part of the initial processing of their claims, an immigration officer gives them a medical form and list of doctors by province and territory. The officer also instructs them to have a medical done by one of those doctors within a certain time. This time varies by region. For example, in Ontario the time is 60 days; in Quebec it is 5 days. The examining doctor sends the medical examination results to Immigration. At that time, Immigration does the medical assessment and decides whether medical surveillance is needed. The appropriate information is entered into the Field Operations Support System. However, Immigration does not notify the refugee claimant or the public health authorities in the provinces and territories that the claimant requires medical surveillance unless the claimant applies for a temporary work or study permit.

3.38 Refugee claimants are unaware that they have to report to public health authorities for medical surveillance if they have inactive tuberculosis. They are not under medical surveillance while their cases are in process at the Immigration and Refugee Board. This process took, on average, 10.4 months in 2001–02. If the Immigration and Refugee Board grants refugee status, the requirement for medical surveillance is passed on to the public health authorities as part of permanent resident status processing. If the Board denies refugee status, the public health authorities are not notified and yet the failed claimant may remain in Canada for several more months or years.

3.39 Recommendation. Citizenship and Immigration Canada should develop a mechanism to inform public health authorities about the requirement for medical surveillance involving cases of inactive tuberculosis among refugee claimants.

Department's response: The Department agrees with the recommendation. The Department is in the process of developing a mechanism for the

expedient referral of individuals in the refugee determination process who require public health surveillance for tuberculosis follow up. The mechanism will be implemented in consultation with Health Canada and the Canadian Tuberculosis Committee.

3.40 Under sections 34 to 37 of the *Immigration and Refugee Protection Act*, visa officers can deny applicants entry into Canada on several grounds related to criminality and security.

3.41 Criminality checks consist mainly of examining the information that accompanies an application, which includes a police certificate from all countries where the applicant has lived for more than six months. Also the Department, in consultation with other organizations, has developed profiles to help identify individuals who might be associated with organized crime and war crimes. When an applicant matches a profile, visa officers can refer the case to the Department's Intelligence Branch. The Branch examines the files, investigates further, and provides advice to the visa officer responsible for processing the application.

3.42 The Department's offices abroad conduct security checks based on risk assessment. The Canadian Security Intelligence Service (CSIS) prepares profiles in co-operation with the Department. These profiles identify the types of people most likely to be inadmissible for engaging in espionage, subversion, or terrorism. Applicants who fit these profiles are referred to CSIS for a check. CSIS reports back to Citizenship and Immigration Canada whether it has concerns or not. The Service prepares a "no reportable trace" report if it has no adverse information on the applicant. The Service prepares an inadmissibility brief when it believes that the applicant is inadmissible as described in the *Immigration and Refugee Protection Act*. If CSIS believes that the applicant is admissible according to the Act but is or was involved in activities described in security provisions of the Act, it prepares an information brief. The Service prepares an "incidental letter" if it receives information on applicants that could make them inadmissible on matters that do not relate to security; for example, health concerns or crimes against humanity. CSIS forwards its reports, briefs, and letters to the Intelligence Branch, which follows up and advises visa officers.

3.43 In our 2000 audit we made several observations and recommendations on criminality and security. We were concerned about serious constraints on the use of certain information in judicial reviews, limited training, and 10-year-old, out-of-date procedural manuals for security reviews.

Progress in determining inadmissibility

3.44 **The Department has taken steps regarding criminality and security.** The new Intelligence Branch created in March 2002 defines its role in this area as providing information and expertise on intelligence management, security, terrorism, organized crime, modern war crimes, and irregular migration. The Branch brought together existing intelligence and case management resources at headquarters and provided a central point for sharing information with partners in the intelligence community.

3.45 Other accomplishments include the Royal Canadian Mounted Police (RCMP) and CSIS each signing a new memorandum of understanding with the Department. The RCMP memorandum covers items such as fingerprinting and screening, intelligence, and fraudulent documents. The CSIS memorandum describes the sharing of information between the two organizations. In addition, the *Immigration and Refugee Protection Act* contains sections that protect security and criminal intelligence that is obtained in confidence from foreign or Canadian sources, during admissibility hearings, immigration appeals, and judicial reviews.

3.46 The Department relies on CSIS to take the lead on identifying potential security threats. At the offices we visited, we found that security profiles were updated with information prepared by CSIS in co-operation with the Department. Officers were aware of the security profiles and were following departmental procedures for screening applicants. Citizenship and Immigration Canada is using the Modern War Crimes System, a new tool to help visa officers identify war criminals. However, the manual on security screening has not been revised.

Fraudulent documents

3.47 Submitting documents is an important aspect of the immigration process. Documents provide, for example, proof of job experience, language proficiency, education, birth, and marriage. Submission of fraudulent documents and misrepresentation is a continuing threat to the integrity of the Immigration Program. In many countries people can easily obtain fraudulent documents and readily use them as support for immigration applications.

3.48 Verifying the authenticity of local documents and documents from other countries requires time and expertise. Our 2000 Report stated that the Department had noted an increase in the submission of false statements and fraudulent documents. We said the Department had been tolerant of applications accompanied by false statements and fraudulent documents. The Report recommended that the Department establish and put into effect a strategy to reduce the risk that applicants will submit false statements or fraudulent documents to an acceptable and manageable level.

New measures assist in the identification of fraudulent documents

3.49 In 2002 the Department put into place the following measures:

- Implementation of the *Immigration and Refugee Protection Act*. The Act prohibits certain individuals from re-applying within two years of being denied due to misrepresentation.
- Establishment of the Intelligence Branch. The Branch is responsible for immigration control officer activities. The Branch also co-ordinates and disseminates fraudulent document information.
- Expansion of the immigration control officer network and development of a new work description that includes providing leadership and guidance for the identification of fraudulent visa application documents. Immigration control officers are now called migration integrity officers.

- Revision of the memorandum of understanding between Citizenship and Immigration Canada and the RCMP (paragraph 3.45). The memorandum, signed in December 2002, clarifies roles and responsibilities between the two organizations. It also outlines responsibilities for fraudulent travel documents and for investigations and referrals prosecuted in Canada.

These initiatives should help the Department to manage the problem of fraudulent documents; however, it is too soon for us to assess their impact on departmental operations.

A need for guidance and to share knowledge

3.50 We noted that some staff abroad are unclear about their legal right to seize documents. There is no policy guidance for officers on seizing documents and the procedures for seizing documents vary among offices.

3.51 Most offices abroad have experience in detecting fraudulent application documents. The offices we visited had collections of documents and, on their own initiatives, had built separate bases of knowledge. But they were not systematically sharing the knowledge among offices that might have benefited from it. For example, offices processing a lot of offshore cases had no system to access the experience of other offices. We heard a clear and consistent message at all offices we visited that processed offshore applications. They said that officers need a way to share knowledge and require further training in the detection of fraudulent application documents.

Quality assurance

3.52 In the 2000 Report we recommended that the Department adopt a quality assurance framework to ensure consistency in decision-making and in the fairness and integrity of the Immigration Program. We observed that the quality of decisions was not monitored sufficiently, and that monitoring activities varied considerably from one office to another.

Testing centralized processing

3.53 In its status reports, the Department identified the “centralized processing pilot” as the main way to test its method of quality assurance. One objective of the pilot was to test whether it was more efficient to process skilled worker applications at one central location or at a network of offices abroad. Applications that would have been processed in London, Hong Kong, and New Delhi were processed centrally in Ottawa. If officers did not need to interview the applicant, the case was finalized in Ottawa. If officers needed to interview the applicant or the applicant was refused, the application was finalized abroad. A sample of files processed in Ottawa was sent to the responsible office abroad for a quality assurance review. The pilot ran from December 2000 to August 2001.

3.54 Another objective of the pilot was to develop and evaluate a method for quality assurance for skilled worker applications that could be used at offices abroad. The method addressed the following elements: quality of decision-making, detection of fraud and misrepresentation, fairness of procedures, and efficiency. Each office abroad had a quality assurance officer

who reviewed a random sample of files previously processed in Ottawa and a random sample of files processed at the office abroad. The method used four instruments: file review of initial assessments, interviews with applicants who previously had their immigration interviews waived, site visits or telephone calls, and file reviews of final decisions. The quality assurance officer also reviewed the documents in the file and the visa officer's use of the Department's information technology systems.

3.55 The pilot results showed that there were no gains in times or productivity from centrally processing skilled worker applications. The results also showed that the quality of decisions was lower overall for applications processed centrally. The most likely explanation, according to the Department, was the lower level of local knowledge at the central processing site. The results showed better client service for applications processed in Canada. However, those results were based on a very small sample size and it was noted that they should be treated with caution.

3.56 During the pilot the Department tested using digitally imaged files for visa applications. Although initial costs to prepare these files were higher than paper files, the rest of the file processing showed significant benefits.

3.57 The Department's assessment of the pilot suggested that it explore processing files at a central location at the beginning and end of the process. Visa officers abroad would continue to decide whether to accept or refuse applications. It also suggested that this option be considered in the development of the Department's new Global Case Management System.

Initiatives at offices abroad

3.58 Although the Department has not decided on the specifics of a quality assurance framework, it has been discussed at Immigration Program managers' conferences and initiatives have been taken at some offices abroad. For instance, the immigration office in Hong Kong has a quality assurance unit of five staff. Its primary task is to examine immigration application documents to detect whether they are fraudulent. The Hong Kong office has determined that the rate of fraudulent application documents is at least 25 percent but could be as high as 50 percent. The Department has also advised us that the Beijing immigration office has done quality assurance reviews on language test results and on economic immigrant applications for which an interview had been waived. In addition, the Department has created three new anti-fraud positions in offices abroad.

Immigration is deciding how to proceed with its strategy

3.59 The Department wrote a draft document, *Anti-Fraud/Quality Assurance Strategy*. It is based on risk management and uses targeted and randomly selected application files. The strategy consists of

- finding and analyzing fraudulent information to improve detection of fraud and misrepresentation;
- providing feedback to the front line; and

- assessing, through a quality assurance program, the quality and consistency of decisions to accept or refuse applicants.

The strategy discusses the creation of a new position, anti-fraud officer, in its offices abroad. This officer would conduct a quality assurance program and anti-fraud efforts. For the quality assurance program, the officer would, using a random sample of files, review files, conduct interviews and telephone verifications, and visit sites. For the anti-fraud program, the officer would verify documents with issuers, confer regularly with large document issuers, analyze and report on findings, and conduct staff training. The Department is deciding how to proceed with quality assurance and anti-fraud efforts.

The need for a department-wide framework

3.60 Limited progress in implementing a department-wide framework to monitor quality of selection decisions. The Department is developing a method and strategy for quality assurance for the economic component but has not given specific guidance to the offices abroad, although it has requested officers to conduct the anti-fraud work. As a result there is no consistency for quality assurance efforts at offices abroad and, at the offices we visited, most are doing little.

Offshore processing

3.61 An offshore application is one that an applicant submits to an office abroad that does not have responsibility for the applicant's country of residence. For example, a resident of Pakistan applies in London, England. At the time of our last audit, 48 percent of all economic immigrant applications were made offshore.

3.62 We found several problems with this in our 2000 audit. First, offshore applications lowered the quality and consistency of decisions. Second, we noted that offshore applications meant a heavier workload for staff in offices abroad. The applications took longer to assess and required interviews more often. We recommended that the Department take action to ensure that applications are processed in the offices that have the skills to make informed and consistent decisions efficiently.

3.63 At the time of our field work the situation remained unchanged. Visa officers who process offshore applications at the offices we visited continue to find that offshore applications require extra processing time because they need to conduct interviews in almost all cases. These applications require a significant amount of research on the part of the officers and the Department considers them a higher risk for fraud than other applications. Offshore applications by economic immigrants represented 26 percent of applications in 2001. The decrease from 48 percent at the time of our last audit is due in large part to the Department re-classifying some applications from the People's Republic of China. The Department previously had classified them as offshore applications.

Implementing a new regulation

3.64 The new Immigration and Refugee Protection Regulations contain a regulation that would greatly reduce offshore processing when put in place.

The regulation requires that applications be made to the Citizenship and Immigration Canada office that serves the country where the applicant has lawfully resided for at least one year or to the office that serves the applicant's country of nationality.

3.65 The Department decided to implement the regulation over a transition period. It issued a draft operations memorandum on 13 June 2002 to staff that all full-service missions would, for the transition period (which was expected to be until 1 January 2003), be defined as immigration offices that serve all applicants regardless of country of nationality. The Department amended its overseas processing manual to state that all visa offices should continue accepting offshore applications until directed to do otherwise. As a result, at the time of our field work, problems with offshore processing continued.

3.66 Implementation on 1 May 2003. The Department notified immigration offices abroad on 1 April 2003 that the implementation date for the regulation is 1 May 2003 and provided them with updated sections of the overseas processing manual. After that date applications for permanent residence must be submitted according to the regulation. The manual describes the regulation and provides guidelines for determining residence and nationality.

Information technology

3.67 In our 2000 Report we noted that outdated technology in offices abroad was a serious obstacle to improving the activities and performance of employees. We noted that numerous efforts to upgrade the systems had failed. In the meantime, offices abroad were buried in paperwork. It was crucial for the Department to identify opportunities for improvement. The Department was planning an investment of about \$194 million in a new system, the Global Case Management System, and was expecting completion of the System in five years. We recommended that the Department review its systems and practices to find ways to maximize the efficiency of its operations and the use of its resources.

Use of technology has improved

3.68 The Department has addressed some of the problems outlined in our 2000 Report by completing several initiatives. These include

- access by offices abroad to the Field Operations Support System, the domestic case-processing system;
- access by many ports of entry and offices in Canada to the Computer Assisted Immigration Processing System, although we noted that some immigration officers do not know how to use the system; and
- access by all visa offices abroad to the Computer Assisted Immigration Processing System.

3.69 The Department continues to develop the Global Case Management System to replace the aging systems that Citizenship and Immigration Canada has in offices in Canada and abroad. The Department has rated the project as high risk due to its size, nature, and complexity. In March 2003 a contractor was selected; however, implementation is behind schedule because of delays in the selection process.

Computer Assisted Immigration Processing System: An information technology system the Department uses abroad to process immigration applications and issue visas. A link to the Field Operations Support System allows it to share information with that system.

3.70 In 2001–02, the Department collected \$451 million in fees for processing immigrant and visitor applications and for granting rights for permanent residents to land in Canada. The Department estimates that nearly 63 percent of these fees, about \$284 million, were collected at offices abroad.

3.71 Our 2000 Report noted significant weaknesses in revenue control, including the Department's inability to reconcile accounts and the lack of linked computer systems for recording cash receipts and issuing visas. A number of visa officers said they lacked the skills to do their job. Internal auditors found there was a need for direction from the Department's headquarters on revenue control. We found a lack of systematic monitoring of revenue collection activities and a great variation from office to office in how rigorously controls were applied. We also noted the need for an appropriate framework for, and management of, revenue control and more internal audits.

3.72 Citizenship and Immigration Canada and the Department of Foreign Affairs and International Trade (DFAIT) share responsibilities for immigration revenue control at missions abroad. Generally, Citizenship and Immigration Canada staff collect fees from applicants, issue receipts, and record the fees in the cash receipt system. Immigration then turns the funds and a summary over to DFAIT for accounting purposes and deposit in a financial institution. In some locations applicants pay fees at a local financial institution. In these cases, immigration staff record the bank receipts in the cash receipt system and turn the summary over to DFAIT for accounting purposes. Immigration cost recovery officers oversee Immigration's procedures. Immigration establishes policies and procedures for its responsibilities and gives direction to cost recovery officers. A 1992 memorandum of understanding between the two departments indicates that DFAIT is responsible for immigration cost recovery functions; more specifically, for providing accounting services, including cash receipt and deposit facilities.

The Department has made progress in revenue control

3.73 Since the 2000 Report, the Department has continued to implement a cash receipt system which is now installed in 71 missions. The missions we visited all had the latest version of the software and guide for the system.

3.74 The cash receipt system is not linked to the Computer Assisted Immigration Processing System, the system used to process immigration applications and issue visas. The Department cannot reconcile accounts; that is, verify that the number of files processed and visas issued corresponds to the fees collected. The Department has advised us that it will build this ability into the new Global Case Management System. In addition, in July 2001 the Department and DFAIT issued a joint message to missions on cost recovery outlining current procedures and new procedures to improve controls. Because cash receipt and accounting for it are areas of high risk and vulnerable to manipulation, it is important that the departments follow up to ensure that these procedures are followed.

3.75 The examination of other banking options by Immigration and DFAIT is ongoing. The Department is working on guidelines that missions can use when researching alternate banking arrangements. However, these are not complete and were not included in the new draft cost recovery manual that the Department is working on. There are 27 missions with banking arrangements that enable applicants to pay immigration fees at a financial institution.

3.76 The Department, DFAIT, and other partners began pilot projects in two locations abroad using credit cards to pay for some immigration fees. These pilots were scheduled to end in April and July, 2003. Departmental comments indicate that the pilots were not successful and the departments are looking at other payment options that would still use credit cards.

Tools and training are still a concern

3.77 While the Department is working on a new cost recovery manual for missions abroad, the new manual is about two years behind schedule. The offices we visited had different versions of a cost recovery manual with the exception of one office which had no manual.

3.78 The Department has added modules on risk management, malfeasance, and cost recovery to the Immigration Program manager's course. It has also provided tools to assess program integrity and identify risks and a kit to use on arrival at missions with which to conduct a cost recovery audit. The basic visa officer's course includes a module on cost recovery and, in the winter of 2003, a module on the cash receipt system was added. Modules on ethics and malfeasance have been added to courses for local staff. The Department of Foreign Affairs and International Trade has developed and delivered a fraud awareness course at missions. However we are still concerned about the training of officers at some offices abroad. Cost recovery officers at some of the offices we visited said they have not had sufficient training in revenue matters and would appreciate that training and an up-to-date cost recovery manual.

3.79 Visa forms control is an essential measure to guard against abuse. In the 2000 Report we had several concerns. We found that the Immigration Visa and Record of Landing document (IMM1000) was outdated and easy to falsify. In addition, departmental records showed that some visas had been stolen and that procedures were not in place to ensure that officers consistently applied controls.

The new Permanent Resident Card

3.80 The Department replaced the IMM1000 as of 28 June 2002. A new form, the Confirmation of Permanent Residence (IMM5292) confirms the residence status of new immigrants. It is used to issue the new Permanent Resident Card. This card has a number of security features that the IMM1000 did not have. Another new form, the Permanent Resident Visa (IMM1346), is included in an individual's passport as a travel document.

Problems still exist with forms control

3.81 We found several problems with forms control during our visits to immigration offices abroad. Officers were not always following the required control procedures. Three examples: some offices were not reporting quarterly inventories of documents to headquarters; one office was not reconciling on a daily basis visas that were used; and not all offices had two Canadian officers present when counting inventories of forms.

3.82 One Canada-based officer is selected at each office abroad to be a forms control officer. Most forms control officers at the offices we visited felt that they needed training and guidance for their position. To address this need, the Department has developed new instructions on forms control and these are available electronically.

3.83 We were concerned in 2000 that the resources allocated to internal audit activities were cut significantly during a reorganization of the Department, and again as a result of Program Review. We recommended strengthening the role of internal audit throughout the organization. This has now been done. The Department established the Internal Audit and Disclosures Branch in 2002, hired a director general, and assigned additional resources.

3.84 In our 2000 Report we were concerned that the Department's performance indicators and its reports to Parliament on skilled workers and business immigrants were focussed primarily on meeting immigration levels. We also noted that the Department needed better information on the use of resources and on the quality and uniformity of selection and admissibility decisions.

Information for Parliament is incomplete

3.85 Performance indicators and reports to Parliament remain focussed on immigration levels. The Department does have other information on the economic component readily available that could be reported to Parliament; for example, number of applications on hand and processing times for applications. In our view this is important information that needs to be reported to Parliament.

3.86 The Department reports annually to Parliament in its departmental performance report. It also presents an annual report to Parliament on the operation of the *Immigration and Refugee Protection Act* for the preceding calendar year as required by section 94 of the Act. We reviewed several years' worth of departmental performance reports and the 2002 Annual Report to Parliament on Immigration. We are concerned that the information presented to Parliament on the number of skilled workers entering Canada may be misunderstood. For example, the 2002 Departmental Performance Report states that the number of skilled workers landed in Canada in 2001 is 137,119. The information would be more clearly presented as 137,119 skilled workers, consisting of 58,860 principal applicants and 78,259 dependants. The 2002 Annual Report to Parliament on Immigration also did not provide

the composition of skilled workers. We have the same concern for the presentation of the numbers of business immigrants. We noted that the information does exist in a document, Facts and Figures 2001, which can be found on the Department's Web site. www.cic.gc.ca/english/pub/facts2001/index.html

3.87 Recommendation. The Department should include additional information in its departmental performance report, such as the number of applications on hand and processing times for applications. In that report and in its annual report to Parliament on immigration, the Department should give the numbers of both principal applicants and accompanying family members.

Department's response: The Department agrees. In its departmental performance report and its annual report to Parliament on immigration, the Department will include additional information regarding the composition of the skilled worker and business immigrant classes, as well as inventory levels and processing times.

Conclusion

3.88 The Department has acted on many of the observations and recommendations made in our April 2000 Report, Chapter 3, The Economic Component of the Canadian Immigration Program. Many of the recommendations that we made in that Report have been addressed in the new *Immigration and Refugee Protection Act* and its regulations. It is too soon after the implementation of IRPA for us to reach a conclusion on the impact of the new criteria and tools for selecting skilled worker and business immigrants. The new fraudulent document initiatives should help address problems noted in our 2000 audit.

3.89 Greater attention needs to be paid to medical surveillance of immigrants and refugee claimants to ensure that public health authorities are notified promptly of individuals that require surveillance. The Department still has to put into place a department-wide quality assurance framework to ensure the consistency, fairness, and integrity of selection decisions.

About the Follow-up

Objective

The objective of this follow-up was to assess the extent of Citizenship and Immigration Canada's actions to address recommendations in our April 2000 audit.

Scope and Approach

This follow-up focussed on the recommendations made in our 2000 Report, Chapter 3, The Economic Component of the Canadian Immigration Program. We also looked at medical surveillance of refugee claimants. We did not look at controls over medical admissibility at offices abroad. We reviewed two status reports by the Department on the action it has taken in response to our recommendations. We interviewed staff at Citizenship and Immigration Canada, the Canadian Security Intelligence Service, and the Royal Canadian Mounted Police. We met with immigration staff at national headquarters and in five regions in Canada. We visited nine offices in other countries: Accra, Guatemala City, Hong Kong, London, Manila, New Delhi, New York, Singapore, and Vienna. We visited 14 ports of entry including airports, land border crossings, and marine ports. We interviewed staff, reviewed files and management reports, and analyzed data.

Criteria

We expected that Citizenship and Immigration Canada would have made satisfactory progress in putting in place our recommendations.

The criteria from the 2000 audit remain relevant. Therefore we expected to find the following:

- roles and responsibilities within the federal government that would facilitate efficient and effective management of the Canadian Immigration Program;
- organization of activities and allocation of resources to take into account existing risks and to encourage reaching immigration levels in an economical and efficient way while maintaining the Program's integrity;
- objectives of the economic component to be clearly set out and the selection criteria helpful in meeting those objectives;
- mechanisms in place to ensure the quality of decisions and the Program's integrity;
- a control framework to protect the main assets;
- management practices to make it possible to monitor the Department's performance carefully; and
- information intended for Parliament to be relevant, reliable, and complete.

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Appendix Selection criteria for immigrants in the economic component

Section 12 of the *Immigration and Refugee Protection Act* provides that foreign nationals may be selected as members of the economic component based on their ability to become economically established in Canada. The economic component is made up mainly of two streams: skilled workers and business immigrants. The Minister decides and makes available to the public the minimum number of points required for the establishment of the economic applicant in Canada. The province of Quebec sets its own selection criteria for immigrants under the economic component.

Skilled workers

Initially, skilled workers are assessed against certain minimal employment experience requirements. If these requirements are not met, the application is refused. Otherwise they are assessed against the following selection criteria and must receive a minimum of 75 points.

Selection criteria	Maximum points awarded
Education	25
Official language proficiency	24
Experience	21
Age	10
Arranged employment	10
Adaptability	10

Skilled workers must also have a certain amount of available funds or arranged employment.

Business immigrants

Business immigrants are selected to support the development of a strong and prosperous Canadian economy in which the benefits of immigration are shared across all regions in Canada. Members of the business immigrant class include investors, entrepreneurs, and the self-employed. During the selection process, officers first assess whether the applicant meets the definition of investor, entrepreneur, or self-employed. If not met, the application is refused. Otherwise officers assess the applicant using a point system based on selection criteria that measure the applicant's capacity to get established successfully.

Investors

The definition states that investors must demonstrate business experience, which includes two options:

- management and control of a qualifying business of sufficient size; or
- management of a business, or a portion of a business (without the need to own it), with at least five employees.

Investors must also have a legally obtained minimum net worth of \$800,000 and make an investment of \$400,000. Investors must deposit CAN\$400,000 with the Receiver General for Canada before a visa can be issued. Subsequently, the funds will be distributed to the provincial funds for investment. After five years, the provincial funds will repay Citizenship and Immigration Canada for subsequent payment to the investors. The participating provinces will continue to be responsible for guaranteeing the payment of their respective shares.

Entrepreneurs

Entrepreneurs must demonstrate business experience consisting of management and control of a qualifying business of sufficient size. Entrepreneurs will be required to document that, for a period of at least one year, within a period of not more than three years after landing, they owned and managed a qualifying Canadian business that meets any two of the defined requirements for jobs, sales, net income, and equity.

Self-employed

Self-employed people must have the intention and ability to create their own employment and make a significant contribution to the cultural or athletic life of Canada, or to create their own employment by purchasing and managing a farm in Canada. Immigrants who have been self-employed in cultural activities or in athletics, or have participated at a world class level in cultural activities or in athletics, or have farm management experience are eligible within the class.

Business immigrants will be evaluated against the following grid and must receive a minimum of 35 points:

Selection criteria	Maximum points awarded
Business experience (investors or entrepreneurs), or relevant experience (self-employed)	35
Age	10
Education	25
Official language proficiency	24
Adaptability	6

Source: Citizenship and Immigration Canada

Chapter

4

Correctional Service Canada
Reintegration of Male Offenders

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Correctional Service Canada

Reintegration of Male Offenders

Main Points

4.1 Correctional Service Canada has substantially implemented many of the recommendations we made in our 1999 audit. It has made more time available for offenders to participate in needed programs while incarcerated. It has improved the quality of the reports it prepares for the National Parole Board to decide whether an offender should be released conditionally into the community. In the community, the Service has made a significant improvement in meeting its standards for frequency of contact with offenders on parole. Senior management commitment and leadership have been important in achieving these results.

4.2 In two areas that are critical to reintegrating offenders effectively, however, Correctional Service has been slow to address our recommendations of previous audits. Not enough programs are available to offenders in the community to meet the need. The Service has made little progress in implementing key aspects of its approved national strategy for providing offenders with appropriate employment programs.

4.3 We found three other important areas that need attention where we did not make a recommendation in 1999:

- The Service has not fully tested the inter-rater reliability of the tools it uses to assess an offender's needs and the risk he presents.
- Parole officers are critical to the successful reintegration of offenders, but the level and quality of their training is weak.
- Turnover among parole officers appears high, with a potential impact on offender reintegration operations.

4.4 Since 1994, we have conducted five audits that examined various practices for reintegrating male offenders into the community, a vital part of the Service's mandate. In our two most recent audits we have reviewed the same areas to determine how much progress the Service has made on addressing our previous recommendations. The audit reported here looks specifically at how Correctional Service has acted on our 1999 recommendations.

4.5 In 1999 we recommended that the Service improve its timeliness in acquiring official documents needed to assess offenders when they enter institutions. We said it needed to be more efficient in preparing casework to meet the offender's first date of eligibility for parole. It needed to clarify and implement a strategy for employment programs geared to reintegrating offenders. And we said it should improve the quality of its reports that the

National Parole Board uses to grant the conditional release of offenders into the community. We also noted the need for better adherence to national standards for frequency of contact with offenders in the community.

Correctional Service Canada has responded. Correctional Service has generally accepted our recommendations. Its responses indicate what it is doing or plans to do to address them.

Introduction

4.6 Correctional Service Canada has two main responsibilities: the incarceration of offenders and their safe reintegration into the community. The Service spent \$492 million on reintegration activities in 2001–02—about 33 percent of its total spending, roughly the same proportion it spent on reintegration in 1997–98.

4.7 The *Corrections and Conditional Release Act* says that the purpose of conditional release is to contribute to public safety by releasing offenders at a time and in a manner that increases their chances of successfully reintegrating into the community. The Act gives the National Parole Board authority to grant the conditional release of offenders on full parole when they have served one third of their sentence. Offenders become eligible for day parole six months before the date of their eligibility for full parole (Exhibit 4.1). Under Accelerated Parole Review, offenders who are serving their first federal sentence and were not convicted of a violent crime or serious drug offence can be released on day parole after serving one sixth of their sentence, unless there are reasonable grounds to believe they will commit a violent offence before their sentence ends.

4.8 After serving two thirds of their sentence, most offenders who have not been paroled are entitled by law to be released into the community (statutory release), where their supervision continues until the sentence expires. In a small number of cases, Correctional Service will recommend to the National Parole Board that an offender be kept in prison until the end of his sentence. The Board detains an offender when it is likely that, if released before his sentence ended, he would commit an offence involving death or serious harm, a sexual offence against a child, or a serious drug offence.

4.9 Most offenders under supervision in the community are subject to conditions such as refraining from the use of alcohol and from associating with criminals. If an offender breaches any of these conditions and the

Exhibit 4.1 Milestones in a fixed-term sentence of six years



Source: *Corrections and Conditional Release Act*

supervising parole officer feels that the risk to the community has been raised to an unacceptable level, the National Parole Board may revoke the offender's parole and have him returned to prison.

The process for reintegrating male offenders

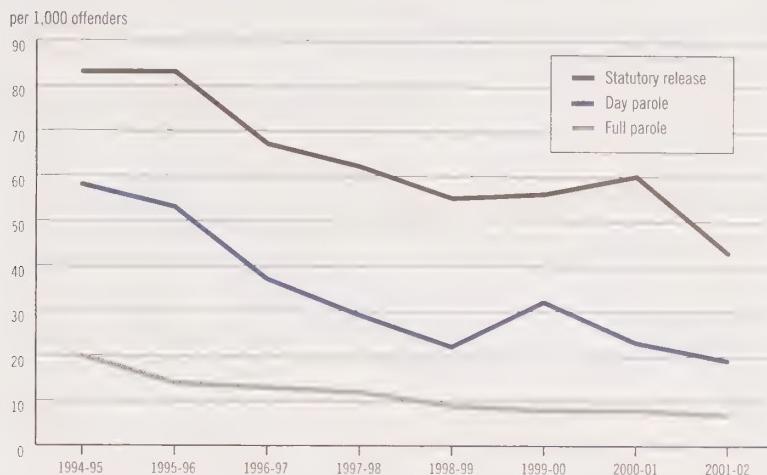
4.10 Correctional Service uses a case management process to manage the reintegration of offenders. The process has a number of stages that include the following:

- obtaining official documents required for assessing the security risk and the needs of each offender;
- assessing the offender to identify the factors that led to his criminal behaviour and developing a correctional plan to address those factors;
- assigning and scheduling the offender to participate in reintegration programs and other interventions to prepare him for release hearings before the National Parole Board;
- assessing whether participating in programs and other interventions has helped reduce the risk that the offender will commit another offence after being released;
- making recommendations to the National Parole Board on the offender's suitability for conditional release into the community;
- releasing the offender—on parole by the National Parole Board or, by law, after two thirds of the sentence (statutory release), or at the end of the sentence (warrant expiry);
- providing supervision, further programs, and assessment in the community until the end of the sentence; and
- reporting to the National Parole Board if an offender in the community presents an elevated risk that warrants a review by the Board.

Trends in the offender population

4.11 The number of male offenders in federal correctional institutions and under supervision in the community has declined over the last few years, while the split between the two groups has remained fairly constant at 60 percent and 40 percent respectively (Appendix). A total of about 500 fewer offenders were admitted to federal prison in 2001–02 than in 1997–98, and the total number of releases declined by about 1,000 during the same period. As we reported in 1999, offenders continue to be released at a later point in their sentences—as illustrated by the growing proportion of releases that are statutory releases.

4.12 National Parole Board data covering the period 1994–95 to 2001–02 indicate that the conviction rate for violent offences by offenders supervised in the community appears to have declined. Exhibit 4.2 outlines this decline among offenders on day parole, full parole, and statutory release.

Exhibit 4.2 Conviction rates for violent offences by supervised offenders*

*Supervised offenders includes offenders on parole or statutory release, temporarily detained in a federal penitentiary, or unlawfully at large.

Source: National Parole Board Performance Monitoring Report 2001-2002 — July 2002

Focus of the follow-up

4.13 The purpose of this follow-up audit was to assess the extent to which Correctional Service Canada has acted on recommendations made in Chapter 1 of our 1999 Report. In 1994 and 1996 we had reviewed all aspects of the reintegration process, from the admission of offenders into federal institutions to their supervision in the community after release.

4.14 We reported in 1999 that while the Service had made a concerted effort to respond to previous observations, it still needed to make the following improvements:

- more timely acquisition of official documents for initial assessment of offenders;
- more timely casework preparation to meet the offender's first parole date;
- a clear operational strategy for offender employment programs;
- better quality of reports to the National Parole Board to grant the conditional release of offenders into the community; and
- improved adherence to national standards for frequency of contact with offenders in the community.

4.15 Some quantitative information in this chapter is based on data provided by Correctional Service. We have attempted to assess these data through a process of analysis, comparison, and discussion. Unless otherwise indicated in this chapter, these data should be treated as unaudited.

4.16 Further details on our audit objective and criteria are presented in the About the Follow-up at the end of the chapter. As in our previous audits, this audit did not include issues specific to Aboriginal offenders.

Observations and Recommendations

Assessing offenders at intake

4.17 The first step in managing an offender's case is the intake assessment process, which determines the appropriate level of security for the offender. A correctional plan is also prepared, outlining the factors that led to the offender's criminal behaviour and the programs he will need to address them. The Service must complete the correctional plan as soon as possible after the offender enters federal custody; late completion leaves little time for offenders serving short terms to participate in the programs they need to become eligible for release.

Inter-rater reliability of assessment tools needs more testing

4.18 The Custody Rating Scale is the assessment tool used to determine what level of security an incoming offender warrants. If an instrument has a high inter-rater reliability, different parole officers assessing the same offender will likely assign him to the same security level. If its reliability is relatively low, different parole officers will probably assign the same offender to different security levels. Assigning an offender to a higher level than necessary can reduce opportunities for him to participate in reintegration programs. It also increases the cost of incarceration.

4.19 In 1999, we found that Correctional Service had adequately verified that the Custody Rating Scale was scientifically valid for assessing male offenders; however, it had not thoroughly tested its inter-rater reliability. The use of an unreliable instrument could call into question the testing of its validity.

4.20 As part of its ongoing research activities, the Service recently undertook a preliminary test of the Custody Rating Scale's inter-rater reliability among a small number of parole officers. Initial results showed that about 25 percent of the officers assigned higher security levels to the same offender. Given the potential impact of a problem with inter-rater reliability, these preliminary test results are a concern and reaffirm that the Service needs to do further work.

4.21 Our follow-up found that Correctional Service has yet to complete a full test of its Custody Rating Scale for its inter-rater reliability in classifying male offenders. Periodic ongoing tests of inter-rater reliability are required to assess the adequacy of the way the tool is applied, the current training given to those using it, and controls on the quality of its results.

4.22 **Recommendation.** Correctional Service Canada should fully test the inter-rater reliability of the tools it uses to assess male offenders at intake and should take the necessary action indicated by test results.

Correctional Service's response. Correctional Service Canada's research confirms the predictive validity of the assessment tools it uses. The Service accepts the suggestion that additional research should be done on inter-rater reliability and this is included in the 2003–2004 Research Plan.

Timely preparation of offenders' correctional plans is still a challenge

4.23 In the past, our Office has examined the completion of the offender's correctional plan from two perspectives: timely acquisition of documents required to assess the offender and the amount of time needed to analyze this information and complete the correctional plan.

4.24 The Service must gather information on the offender and the offence from its own records and from outside agencies. Its policy requires that it have three documents available to assess the offender's risk and needs: the offender's criminal history (for example, police reports); an official version of the offence (for example, the judge's comments); and the Post-Sentence Community Assessment (prepared by community parole officers). All official documents are needed far enough in advance to prepare the offender's correctional plan on time.

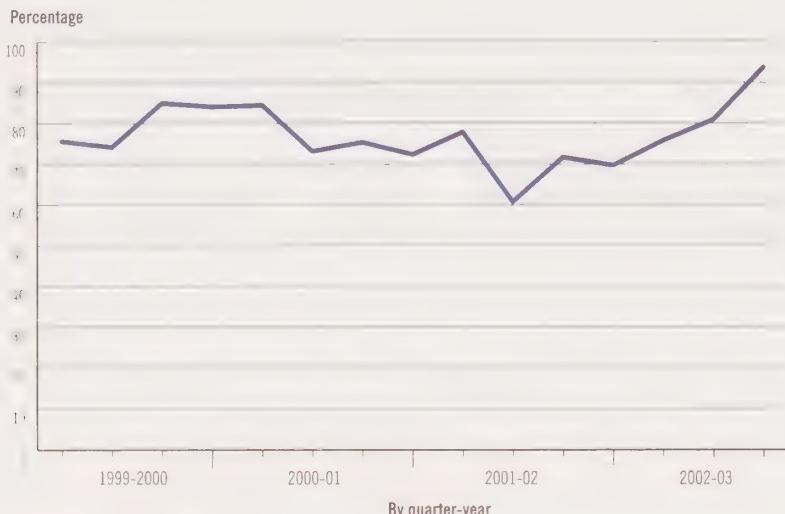
4.25 In 1999 we noted that while the Service had reduced some of the delays in acquiring these documents, in about one quarter of the cases it did not meet its own standards for timeliness. We recommended that the Service find ways to further reduce the delays in getting the necessary information on offenders. Our follow-up found that Correctional Service's current data show a further reduction in the average number of days it takes to acquire official information on offenders (Exhibit 4.3).

Exhibit 4.3 Average number of days to receive police reports, judge's comments, and post-sentence community assessments (1999–2002)

Time period	Average number of days		
	Police reports	Judge's comments	Post-sentence community assessments
1999–00	34	34	30
2000–01	25	35	27
2001–02	21	31	23

4.26 As of April 2001, Correctional Service standards require that the correctional plan be completed within 70 days of the admission date for offenders serving less than four years and within 90 days for the rest. The Service still has difficulty meeting its standards for timely completion of correctional plans (Exhibit 4.4). In 2001–02, only about 70 percent of all correctional plans were completed on time. The Service has reviewed its completion rate for the current year to date and found that nationally, it has improved to 84 percent.

Exhibit 4.4 Percentage of correctional plans completed on time (April 1999–December 2002)



Source: Correctional Service Canada

4.27 More timely acquisition of required official documents represents an improvement in one aspect of completing correctional plans on time. However, a study of the offender intake process conducted for the Service in 2002 concluded that better scheduling and assignment of resources may be necessary to complete all correctional plans on time as required.

4.28 Recommendation. Correctional Service Canada should identify the measures needed to meet its existing standards for on-time completion of correctional plans and should take the necessary corrective action.

Correctional Service's response. We have focussed our attention on this area and have already seen improvement. We will continue to monitor on a monthly basis and take appropriate action as required.

Case management

There is more time for offenders to complete programs before their first parole eligibility date

4.29 In 1999 we recommended that Correctional Service Canada improve the efficiency and timeliness of its case management process and the preparation of its reports on offenders to meet its approved standards.

4.30 We had estimated in 1996 that, on average, three rehabilitation programs were prescribed for low-risk/low-need offenders, and the shortest possible time in which they could complete the three programs was 105 days. We calculated that offenders serving a two- to three-year sentence had only 19 days to complete the programs before their earliest date of eligibility for parole. By 1998, this had improved to 60 days, and in 2001–02 to 79 days.

4.31 These results suggest that most offenders who require rehabilitation programs are now more likely to complete them on time. Further, some offenders start critical programs in the Intake Unit while they are still awaiting placement in an institution. More timely completion of all

correctional plans would allow added time for reintegration programs, and this would help offenders meet their parole eligibility dates.

Some offenders remain incarcerated after they become eligible for parole

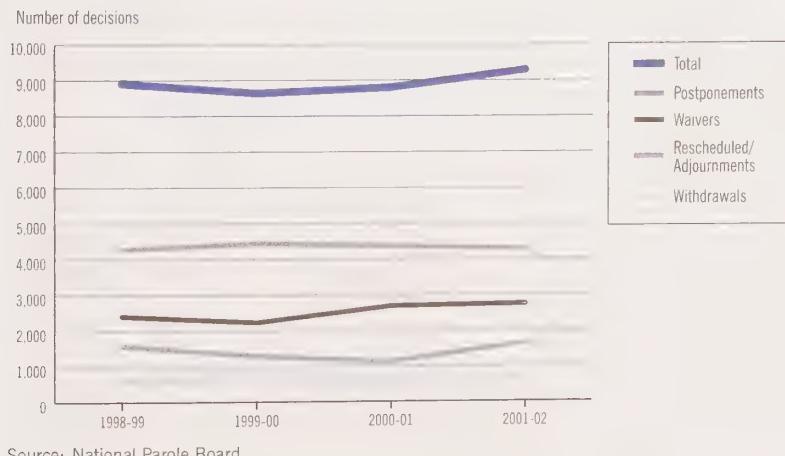
4.32 Parole hearings can be delayed for several reasons—for example, if an offender feels that the National Parole Board is unlikely to release him, if he has a court case or an appeal pending, or if Correctional Service is unable to provide the required programs in time to prepare the offender for release. The National Parole Board can also adjourn a hearing if it does not have the required documentation in time for members to prepare for the hearing.

4.33 Exhibit 4.5 shows that from 1998 to 2002, the numbers of annual withdrawals, postponements, and administrative adjournments of hearings (in combination with rescheduled hearings) have been fairly stable. However, waivers (an offender's waiving of his legal right to a hearing) have increased somewhat. In 2001–02 almost 9,300 of the possible 36,400 decisions on the release of offenders were delayed.

4.34 In 1999 we recommended that Correctional Service Canada regularly analyze the reasons for the number of offenders who remain incarcerated beyond their first date of eligibility for parole. That year, Correctional Service conducted a national study of 1,300 offenders still incarcerated after their date of eligibility for full parole in order to examine the validity of the waivers, postponements, and withdrawals of parole hearings.

4.35 The study indicated that in most cases, the reasons for the delays were beyond Correctional Service's control—for example, release was not recommended; the offender had refused programs; or offenders serving short terms did not have time to complete the programs prescribed in their correctional plans. Correctional Service did determine that seven percent of the delays were caused by factors within its control, such as insufficient program capacity or problems with scheduling. The Service concluded from

Exhibit 4.5 Waivers, withdrawals, postponements, and adjournments (1998-2002)



Source: National Parole Board

its study that not many good candidates for release were being detained unnecessarily. National and regional monitoring will continue, with periodic sampling of offenders who are past their date of eligibility for full parole.

4.36 Despite the improvement that the study showed, almost 100 offenders still were not prepared for release in time for their parole eligibility dates. The *Corrections and Conditional Release Act* requires that the Service maintain offenders at the lowest level of custody possible, including supervision in the community. Delayed releases have cost implications, since it is more expensive to keep offenders in prison than in the community. However, protecting society must always remain the paramount concern.

4.37 Recommendation. Correctional Service Canada should eliminate all delays within its control that affect the timely preparation of offenders for their first dates of eligibility for parole.

Correctional Service's response. As acknowledged in the chapter, there are very few offenders who are good candidates for release who see their parole review delayed due to reasons within the Service's control. It is also important to recognize that the overriding principle in federal corrections legislation is the protection of the public, and therefore our work in preparing offenders for their parole review is grounded on that principle. The Service recognizes the importance of timely preparation of offenders and will continue to examine the reasons within its control for delays and take appropriate action.

Senior correctional officers are still not fulfilling their case management responsibilities

4.38 Managing offenders' cases in the institutions requires teamwork between senior correctional officers (who also have security duties) and parole officers. Their collaboration and exchange of information are crucial to understanding changes in offenders' behaviour—information that parole officers use in preparing reports for offenders' hearings before the National Parole Board.

4.39 In 1996 and 1999, we observed that senior correctional officers were not consistently carrying out the case management duties as required by Correctional Service policy. Among other things, these officers were expected to complete clear, concise reports for case management purposes, inform colleagues about significant incidents and behavioural changes of inmates, and participate in assessing inmates. We recommended that these officers perform the case management duties required of them by policy.

4.40 Recently, Correctional Service adjusted its division of case management responsibilities. As a result, many of the senior correctional officers' responsibilities for case management reporting were shifted to the institutional parole officers. While the Service made this operational decision over a year ago, it has just started the process of rewriting and re-evaluating the job description for senior correctional officers.

4.41 The new division of responsibilities still requires that senior correctional officers observe changes in offenders' behaviour. Their case management responsibilities now are mainly to record monthly the offender's

behaviour and progress against his correctional plan objectives; after a successful temporary release of an offender into the community, to submit reports for subsequent releases; and to recommend private family visits.

4.42 An internal audit of case management in 2001 examined, among other things, one function that senior correctional officers are still required to do—recording offenders' progress and behaviour monthly, on time, and at the required standard of quality. The content of most of the reports reviewed by the internal auditors did not meet the Service's requirements.

4.43 Recommendation. Correctional Service Canada should complete the rewriting and re-evaluation of the job description for senior correctional officers and ensure that they fulfil the case management duties still assigned to them, as reflected in the approved division of case management responsibilities.

Correctional Service's response. Correctional Service has a commitment to review and update the senior correctional officer (CX02) work description by September 2003.

Quality of reports to National Parole Board for release decisions has improved

4.44 In deciding whether or not to grant the conditional release of offenders from prison, the National Parole Board examines reports and file information pertaining to the offender. Among other things, it places a lot of importance on the quality of the parole officer's analysis in reports from Correctional Service. In 1999, we concluded that the quality of these reports was a concern. We recommended that Correctional Service address known deficiencies in the quality of its reports to the National Parole Board.

4.45 In this follow-up audit, we used the same methodology to determine to what extent the Correctional Service reports help Board members make informed decisions on the conditional release of offenders. We selected a random sample of reports sent to the National Parole Board for release decisions from 1 January to 30 June, 2002. We examined whether the reports had enough information so that a Board member could base a decision solely on their content (good reports); whether they had some gaps in information or analysis that would require additional review of the offender's file (adequate reports); or whether they were of so little value or so unclear that a decision would require a full review of the file (poor reports). We also selected a sample of reports on offenders who presented a higher risk and had greater needs when the decision on their release was before the National Parole Board. We tested this sample separately to determine whether the quality of these reports differed.

4.46 We found that the quality of reports to the National Parole Board has improved since our 1999 audit (see Exhibit 4.6). In 1999, we rated 11 percent of all reports sampled as poor in quality. In 2002, 6 percent were rated poor. However, one in eight files on the higher-risk offenders contained reports that did not provide sufficient information to Board members. We suggest that the Service continue to monitor this area to maintain the current level of improvement and strive to achieve better quality in its reports.

Exhibit 4.6 Improved quality of reports to the National Parole Board on offenders

Report quality	Total population		High-risk offenders only	
	1999 Sample	2002 Sample	1999 Sample	2002 Sample
Good	43%	56%	42%	47%
Adequate	46%	38%	42%	40%
Poor	11%	6%	16%	13%

4.47 An internal audit review in 2001 of the case management process also examined the reports sent to the National Parole Board for decisions on releasing offenders. The review focussed on compliance with Correctional Service's policy and procedural requirements for the case management of offenders serving short terms. The review indicated that the reports did not meet the Service's current requirement to include an assessment of the offender's progress against his correctional plan, the impact of programs taken, and changes in the offender's attitude and his adjustment to incarceration.

4.48 One of the problems we found in 1999 was inconsistent control over the quality of these reports to the National Parole Board. Unit managers (who supervise teams of correctional and parole officers) were responsible for quality control but could not fulfil that role, partly because they lacked enough background and training in case management.

4.49 During our recent field visits, we found that the level of Correctional Service's quality control over reports to the National Parole Board was still uneven. The Service told us it is developing a training course for unit managers that focusses on quality oversight and feedback.

Programs for offenders

4.50 The Service has a wide range of rehabilitation programs for offenders to reduce the risk that they will reoffend. These programs can be divided into two broad categories: intervention and employment. Intervention programs have been developed to address the offenders' characteristics that have led to their criminal behaviour. They deal with such areas as substance abuse, family violence, and sex offences.

4.51 Employment programs are designed to make an offender more employable when he is released. They include vocational training, prison industries, and institutional work in areas such as the kitchen, laundry, and maintenance.

4.52 In 1996 we concluded that both intervention and employment programs lacked a management framework that would enable senior management to assess these programs and strategically reallocate funds to those that work best.

4.53 In 1999, we reported that Correctional Service had a framework in place for evaluating the effectiveness of intervention programs. It had begun setting up panels of internationally recognized experts, who provided accreditation of a few national and local programs. Since then, all but three of 38 core programs for offenders in the institutions have been accredited. The Service has also made a concerted effort to standardize the array of available programs by replacing non-accredited local programs with accredited national programs.

Implementation of the strategy for employment programs is just beginning

4.54 Research shows that the risk of reoffending is much higher among offenders whose employment patterns have been unstable. To help offenders become more employable, the Service provides a series of employment programs and job training.

4.55 In both 1996 and 1999, we recommended that Correctional Service develop and implement a coherent strategy for providing employment programs. After six years, it has a strategy but has only just begun to implement it.

4.56 In April 2000, the Service consolidated all employment programs for offenders under the responsibility of Corcan, a special operating agency within the Service. In December 2000, Corcan formalized its employment strategy in the Employment and Employability Program. It redefines the way Correctional Service values and assigns work and vocational placements. The success of this employment strategy requires the involvement and co-operation of the Service's regional and institutional operations with Corcan.

4.57 The goal of the Employment and Employability Program is to ensure that offenders are ready for the job when they are released into the community. Its purpose is to give offenders the chance to develop employment skills, gain certified work experience, and understand what is expected in private-sector employment—for example, the pace, the quality of work, and the hours of work.

4.58 Under this strategy, employment is now viewed as a core rehabilitation program like any intervention program. As such, it requires

- assessing to what extent a lack of employment skills has been a critical factor in the offender's criminal behaviour;
- ensuring that employment programs are designed to remedy these deficiencies;
- placing the offender in an appropriate employment program;
- evaluating the offender's progress; and
- providing follow-up support in the community.

4.59 Assessing the offender's needs. During intake assessment, Correctional Service traditionally has assessed the extent to which an offender needs steady employment to help him avoid reoffending. It now has

further tools to evaluate the offender's aptitude for and interest in developing work skills. This should help identify those who would be served best by employment programs.

4.60 Placing the offender in an appropriate program. The offender case management team in the institution uses the intake assessment results to refer offenders to appropriate employment opportunities while they are incarcerated. However, in the current system there are more offenders with identified employment needs than there are openings in related programs. If employment training is to operate on the same basis as other reintegration programs, then within the institution there must be a fundamental shift in attitudes about employment for offenders. The Service must have the capacity to train for employment all offenders whose assessments show the need. Other offenders who may simply want to work or who can provide specific skills to an institutional program can then be accommodated if capacity permits.

4.61 Program quality. Corcan has enhanced the employment programs in the institution by introducing new standards of work, reflecting job performance requirements that are consistent with industry standards. It is planning to realign all Correctional Service programs of employment and job skills training to increase the "job readiness" skills of offenders with identified employment needs. For example, it will offer general work skills that will make the offender more employable (punctuality, problem solving, teamwork) and practical skills (food preparation, carpentry) through on-the-job training.

4.62 Evaluating the offender's progress. Corcan has developed a standardized tool for evaluating the extent to which an offender's participation in employment programs has made him more employable. This Offender Performance Evaluation is currently being implemented across the country. The offender's progress will be monitored and reported regularly.

4.63 Follow-up in the community. As part of the Effective Community Corrections initiative, Corcan received \$5 million to improve its employment services to offenders in the community. It has increased the number of employment counselling offices from 12 to 25 across most major urban centres. Corcan reported in its Annual Report for 2001–02 that it helped 1,100 offenders find employment and enrolled 500 offenders in full-time education. However, it has no way to identify which regions, institutions, and programs have successfully trained offenders and then placed them in jobs in the community.

Vocational training for offenders needs to be restructured

4.64 Vocational training is one component of employment programs. Even though it parallels what Corcan offers to offenders, traditionally it has been managed independent of Corcan in the institution. Vocational training typically teaches specific skills such as welding or carpentry, and in some institutions offenders can obtain external certification of skills they have learned.

4.65 In April 2002, Correctional Service made Corcan responsible for vocational training in order to integrate it better with other components of the Service's Employment and Employability Program. Corcan estimates that vocational training programs serving about 550 offenders across all regions cost \$3 million to \$4 million a year.

4.66 Corcan presented a position paper to Correctional Service's senior management on restructuring vocational training. However, no strategy for vocational training has been approved and no funds have been allocated.

4.67 Recommendation. Correctional Service Canada should fully implement employment training of offenders as a core rehabilitation program, with particular attention to improving the provision of employment programs and vocational training to meet the identified needs of offenders.

Correctional Service's response. Action was taken effective 1 April 2003 to require that the results of a specialized employment assessment, which was developed in 2002, be addressed in each offender's correctional plan. Offenders with identified employment deficits will be referred to appropriate employment and vocational programs.

There are not enough programs for offenders in the community

4.68 We found that once offenders are released into the community, there are not enough programs to follow up on those taken inside the institution. Research shows that many intervention programs that deal with factors contributing to criminal behaviour are more effective when delivered in the community than in an institution.

4.69 Our audits in 1996 and 1999 noted that many programs required by offenders in the community were not available. For example, in 1999 the Service estimated that fewer than 20 percent of released offenders who had substance abuse problems were receiving the treatment programs they needed. We recommended that the Service ensure an appropriate balance of intervention programs between the institution and the community.

4.70 The Service has indicated that it has somewhat increased the availability of community programs but problems persist. In 2002, using the same test it conducted in 1999, Correctional Service estimated that only about 1,000 (45 percent) of the 2,200 offenders in the community who needed a substance abuse program were receiving this treatment. Waiting lists are a concern.

4.71 Exhibit 4.7 outlines expenditures for 1998–99 and 2001–02 on reintegration programs for offenders, both in the community and in the institutions. At first glance, spending on community programs increased from about \$11 million to about \$16 million from 1998–99 to 2001–02. Despite this increase, spending on community intervention programs has stayed at about 17 percent of the total spending on all intervention programs. However, it should be noted that there are more high-risk offenders in institutions who require more expensive, high-intensity programs.

Exhibit 4.7 Spending on reintegration programs for offenders (1998–99 and 2001–02)

Reintegration Programs	Expenditures (\$000)			
	Institution		Community	
	1998-99	2001-02	1998-99	2001-02
Psychology	11,664	16,484	4,065	4,107
Program management and administration	7,354	10,369	232	2,516
Personal Development – Offenders	11,310	13,387	1,245	690
Aboriginal programs	4,059	5,996	102	808
Living skills	6,550	8,505	737	1,440
Substance abuse programs	3,953	5,542	2,176	2,367
Sex offender programs	5,617	5,945	1,690	1,848
Violence Prevention	665	2,827	0	184
Women's programs	138	557	0	77
Family Violence	954	1,544	509	573
Special Needs Program	740	783	11	116
Counter Point Program	0	0	0	810
Ethno-cultural programs	0	41	0	1
TOTAL	\$53,004	\$71,980	\$10,767	\$15,537

Note: Figures include reintegration program expenditures for both male and female offenders. Psychology also includes assessment and a variety of mental health services not directly related to offender reintegration programs.

Source: Correctional Service Canada

4.72 Offering follow-up programs for offenders in the community presents critical challenges. The duration of programs is long and their admission dates are fixed; they are offered only during the day and typically only in larger urban centres; offenders may move to another location; and there may not be enough participants to warrant offering a program. Some of these challenges relate directly to using the same structure and approach for programs in the community as for those in institutions, where the Service has more control over conditions.

4.73 As part of the Effective Community Corrections initiative, the Service undertook a \$1.6 million, four-year program to deal with these challenges. It is developing a Community Maintenance Program with more flexible treatment for offenders. Activities funded under the program could address some of the known difficulties of delivering programs in the community.

4.74 The program is now going into its third year. However, the significant lack of community program capacity that existed seven years ago continues today. We expected far more progress in this area.

4.75 Recommendation. Correctional Service should set a reasonable target to further increase the number of offenders who receive the intervention programs they need in the community and should review progress to meet the target within a year.

Correctional Service's response. Every released offender has a correctional plan developed to respond to an assessment of his or her particular risks and needs. The Service addresses the offenders' needs through a combination of its own programs, community-based programs, specialized services, and other interventions. The Service will develop a plan to increase offenders' participation in Service-developed community programming and will monitor its progress.

Community supervision

Supervision of offenders in the community is improving

4.76 Supervision in the community is the final step in the process of reintegrating offenders—the last point at which the system can directly influence or control them. It is when they are under supervision in the community that offenders are least separated from the public and therefore present the greatest risk to society. When problems occur here, the consequences can be severe and are usually highly publicized.

4.77 The Service has standards governing the minimum frequency with which community parole officers are to meet with offenders. It is important to maintain adequate contact with offenders in the community, particularly offenders who require a high level of supervision.

4.78 In 1999 we tested the Service's ability to meet its standards for frequency of contact with such offenders. We found that it had failed to meet its minimum standard in 10 percent to 20 percent of cases, depending on the region. We recommended that the Service ensure that its parole officers meet the standard for frequency of contact.

4.79 Our follow-up found a significant improvement since then in the frequency of contact with offenders, the result of a concerted effort by management. Correctional Service has measured its progress in a series of self-audits, and in 2000–01 it found that in 5 percent to 12 percent of cases across all regions, the standard was not met.

4.80 In 2002, the Service reviewed the frequency of contact from March to July in a representative sample of files on offenders in the community. The results indicated a much higher level of adherence to national standards. Only about one to four percent of the files, by region, did not meet the minimum standard. The field data we reviewed indicated a rate of adherence in a range similar to what the Service found in its most recent review.

4.81 In its 2002 review the Service also collected information concerning the types and levels of “collateral contacts” with offenders in the community (collateral contacts are contacts by the community parole officer with the offender’s family members, employer, psychologist, program delivery officers, and the police, among others). They found that over the review period a large

number of collateral contacts had occurred. Among other things, collateral contacts add value because they enhance the parole officer's knowledge of the offender and his level of risk.

Approaches vary in managing offenders who need a high level of supervision

4.82 In 1994 and in 1999, we noted that the Service was using several different approaches to manage offenders who needed a high level of supervision in the community. However, it had not evaluated the effectiveness of the different approaches.

4.83 We found in this follow-up audit that approaches to managing offenders who need a high level of supervision still vary widely from one location to another. In major urban centres, team supervision units handle these cases. In other areas, parole officers are assigned equal numbers of these offenders. Some area offices assign this group only to more experienced staff.

4.84 Correctional Service recently reviewed the approaches it uses to manage offenders who require a high level of supervision in the community. It has approved national practices for supervising those who may require more structure and control. These practices outline, for example, criteria to identify the target group, the required frequency of contact, collateral contacts, and an appropriate approach to treatment. However, they do not define the experience and competency that parole officers need to manage these cases.

4.85 We had also recommended previously that in evaluating its approaches to managing offenders who need a lot of supervision, the Service identify and implement the approaches that are the most cost-effective in various specific circumstances. The Service completed a preliminary evaluation of its community supervision practices in October 2002, six months after implementing its national guidelines.

Rate of institutional parole officer turnover appears high

4.86 During our audit, regional managers and staff frequently mentioned the high rate of movement, rotation, and turnover of parole officers. They attributed the instability of the workforce to factors such as the frequent rotation of staff within and between institutions and community offices, the number of job vacancies, and the number of acting appointments. A variety of factors affect staff turnover. Operational managers can control some of them by, for example, reassigning parole officers to address changes in workload. Others are generated by staff themselves, such as departures or leave for family-related reasons.

4.87 Each staff move creates a chain reaction—work must be reallocated, temporary acting replacements found, the long process of staffing a permanent replacement initiated, and both the temporary acting replacement and the future incumbent trained. As we have noted in this chapter, training of parole officers and quality control need improvement, issues that heighten the impact of high staff turnover on operational stability and case management.

4.88 Senior management at Correctional Service headquarters acknowledged some concern about the high staff turnover and the use of acting appointments. While it had collected few data to assess the extent and impact of parole officer turnover, the Service had examined term and acting positions in order to reduce their number. With the Service's assistance, we collected some preliminary data on institutional parole officers from its human resources data system to assess whether these concerns had validity.

4.89 The information we received on all 41 institutions with six or more parole officers showed that from 1999 to 2002, parole officers had an average annual turnover rate of about 14 percent. Eleven of the institutions had annual turnover rates of 20 percent or higher among parole officers.

4.90 In June 2002 we also examined data on the number of appointments to act in parole officer positions. These data are important because employees appointed to act in positions may not have all the knowledge and skills the positions require. In the 41 institutions we examined, about 14 percent of all parole officers were in acting appointments. Furthermore, in 12 of the institutions at least 20 percent of parole officers were acting in their positions.

4.91 Our review of turnover rates and acting appointments among parole officers was limited, as it was based on unaudited data from headquarters. However, the preliminary results did reinforce some of the concerns raised during our field visits, particularly the high rate of parole officer moves within some institutions. High turnover and the use of acting appointments are interrelated: lower staff turnover would reduce the need for acting replacements.

4.92 Recommendation. Correctional Service Canada should more thoroughly examine the turnover rate among parole officers, assess the impact of turnover and how it is being managed, and take the steps needed to address its findings.

Correctional Service's response. Correctional Service will more closely examine the turnover rate of parole officers and take appropriate action where necessary.

Training for parole officers needs improvement

4.93 The cornerstone of effective offender reintegration is the knowledge and competency of parole officers. It is they who ensure that offenders are properly assessed, accurate reports are prepared, and offenders get the supervision they need in the community. In 1996 we found that training for parole officers was inadequate. We noted that many had not received the eight-day orientation training for parole officers until after they had started the job. By 1999, the Service indicated that it was now providing parole officers 10 days of orientation training, and more of them were participating. It was also planning to provide refresher training to experienced parole officers.

4.94 In our current follow-up audit we noted that orientation training for parole officers still runs 10 days. This training is essential to provide new

parole officers with basic, job-specific knowledge of the reintegration process from the intake of offenders to their supervision in the community. Our field work found that many new parole officers still do not receive orientation training before they start the job. A recent review by the Service showed that 20 percent of parole officers appointed in the last year did not receive orientation training and an additional 15 percent did not receive it in the time required. These results clearly indicate the need for substantive improvement.

4.95 Parole officers in the community told us that the 10 days of orientation training did not cover all the areas of their jobs adequately. Only the last two days of the course dealt with community supervision, and the content was considered superficial.

4.96 As we have noted in this chapter, inter-rater reliability of assessment tools used at offender intake is critical to determining the offender's level of security and needs for effective reintegration. Sufficient parole officer training and learning are key ingredients of inter-rater reliability. We looked at how well current orientation training for parole officers taught and tested these competencies. We found that parole officer orientation provided only a practical overview of these critical instruments. By comparison, a similar offender assessment instrument (the Level of Service Inventory) used in numerous jurisdictions worldwide (United States, Britain, and Australia) requires more extensive training and officer testing to ensure that it is applied as intended.

4.97 Correctional Service's national headquarters has not given the regions detailed guidelines for structured on-the-job training, and we found that training on the job is uneven. Only some offices provide structured training; most training on the job is provided by the more experienced parole officers.

4.98 To be effective on the job, parole officers need continued training to enhance their skills. This can include training in risk assessment, supervision of sex offenders, crisis management, defusing of hostile situations, and negotiation. Correctional Service has not identified those who should receive this enhanced training and when.

4.99 Some parole officers have not received the enhanced training they need. Most told us that it is left up to parole officers to seek out enhanced training on their own initiative in the annual review of their performance. Even then, finding funds and time for training can be difficult.

4.100 To address the known concerns about the training of parole officers, senior management recently approved five additional days of development each year, starting in 2003–04. The training will be developed nationally to enhance parole officers' understanding and application of effective correctional practices. The Service says that three days of the training will be in the classroom and the two final days will be a combination of on-line training, conference attendance, and external courses.

4.101 The Service has also increased its funding for staff training, and it will provide added specialized training on-line to enhance the present orientation

training for parole officers. In addition, it provides supervisors of parole officers with professional development to enhance the quality of community supervision and will provide safety training for parole officers in the community.

4.102 Recommendation. Building on its recent efforts, Correctional Service Canada should ensure that all parole officers working at different points in the reintegration process (at offender intake, in the institution, and in the community) receive the training they need to perform their specific duties.

Correctional Service's response. The Service has already recognized this need and, to that end, it has introduced a national training standard of five days annual training, which will provide parole officers with additional specialized training on the clinical aspects of their duties.

Conclusion

4.103 In 1999 we concluded that Correctional Service was moving in the right direction with initiatives to make its practices and results more consistent across all of its regions.

4.104 Today, the Service has made good progress in several areas that we have raised previously:

- It takes less time to acquire critical documents.
- It has more time to complete the case management process for offenders in institutions.
- The quality of reports to the National Parole Board continues to improve.
- It has made a significant improvement in meeting its standards for frequency of contact with offenders in the community.
- It has developed and evaluated national guidance on supervising offenders who need a high level of supervision in the community.

4.105 However, the Service needs to improve further in other areas where we made recommendations in 1999. It still needs to

- provide enough programs for offenders in the community when they need them;
- implement its strategy for employment and vocational programs; and
- ensure that senior correctional officers fulfil their duties in case management.

4.106 During this follow-up we also identified some related areas that need attention where we did not make recommendations in 1999. Correctional Service needs to

- thoroughly test the reliability of the tools it uses to assess offenders at intake;

- improve the training of parole officers to meet the requirements of the job;
- assess and address the apparently high turnover of parole officers; and
- complete offenders' correctional plans to meet existing standards.

4.107 A future direction for reintegration of offenders. Correctional Service has modified the structure of its reintegration process several times over the past decade. In September 2002 it approved the latest step in the evolution, called "operating regimes." This is a new approach to help specific groups of offenders achieve their correctional goals with the aid of a specialized team of correctional staff. A key part of this new model is to increase offenders' responsibility for their behaviour and for their active involvement in achieving the objectives of their correctional plans.

4.108 Several operating regimes are planned: one for highly disruptive offenders in maximum security institutions; a transition regime for offenders preparing for release to the community; and a number of separate operating regimes in the community based on offenders' needs and potential for reintegration. However, operating regimes will succeed only to the extent that the Service builds on the improvements it has already made in its reintegration practices and addresses those areas we have identified that still need improvement.

About the Follow-up

Objective

The objective of this follow-up audit was to assess the extent to which Correctional Service Canada has acted on recommendations made in Chapter 1 of our 1999 Report. Specifically, we assessed the extent of improvement in the following areas of offender reintegration:

- official documentation received at intake,
- reliability of risk assessment tools,
- timeliness of case management,
- quality of reports to the National Parole Board,
- availability of programs for offenders in the community,
- implementation of the employment strategy, and
- supervision of offenders in the community

Audit scope

Our examination focussed on the critical components of the reintegration process for male offenders that contribute to effectively reintegrating offenders into the community as law-abiding citizens. We also examined the extent to which parole officers working with offenders throughout the reintegration process have the necessary knowledge, skills, and experience to perform the duties of their jobs. The audit did not include issues specific to male Aboriginal offenders.

Audit criteria

We expected the following:

- Risk assessment instruments used to identify an offender's criminogenic factors and level of security throughout the sentence are valid, reliable, and properly applied.
- Accurate, timely, and complete information on the offender both from external sources and from within Correctional Service are available to complete the offender's correctional plan.
- Good-quality, timely intervention and employment programs are provided by qualified individuals to offenders while they are incarcerated and while under supervision in the community.
- Information on offenders' progress against their correctional plans is collected on an ongoing, timely basis and is accurate and complete.
- The Service regularly analyzes the reasons why offenders remain incarcerated past their first date of parole eligibility.
- Complete, timely, and accurate reports are provided to the National Parole Board to grant conditional release to offenders at their first date of parole eligibility and at subsequent reviews.
- Parole officers maintain contact with and supervise offenders in the community at a level that is appropriate and consistent.
- Parole officers working at different points in the reintegration process (at intake, in the institution, and in the community) possess the necessary knowledge, skills, and experience to perform the tasks and duties of their jobs.
- Correctional Service has the accurate and timely performance information it needs on all operational aspects of the reintegration process, including human resource indicators, to make informed management decisions.

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Appendix Offender Population, Admission, and Release Trends (1997–98 to 2001–02)

Offender Population	Offender location	1997–98	1998–99	1999–00	2000–01	2001–02
Institution ¹		13,125 (61%)	12,776 (60%)	12,474 (59%)	12,419 (59%)	12,306 (60%)
Community ²		8,235 (39%)	8,656 (40%)	8,792 (41%)	8,579 (41%)	8,276 (40%)
Total		21,360	21,432	21,266	20,998	20,582

Note: ¹ Institutional figures do not include escaped offenders (154 in 2001–02).

² Community figures do not include offenders deported upon release and provincial offenders under federal supervision. Included are offenders unlawfully at large (646 for 2001–02) and offenders on parole who have been temporarily detained (850 for 2001–02).

Offender Admission	Type of Admission	1997–98	1998–99	1999–00	2000–01	2001–02
	Warrant of committal	4,224	4,418	4,128	4,057	3,926
	Revocation* without offence	2,223	1,852	1,951	1,724	1,704
	Revocation* with offence	1,004	1,105	1,108	1,115	962
	Revocation* with outstanding charge	—	—	5	287	370
	Total admissions	7,451	7,375	7,192	7,183	6,962

Note: *Conditional release suspended and offender returned to federal prison.

Offender Releases	Type of Release	1997–98	1998–99	1999–00	2000–01	2001–02
	Day parole	2,474	2,673	2,659	2,305	2,084
	Full parole ¹	540	396	290	215	224
	Statutory release	4,773	4,340	4,429	4,568	4,690
	Warrant expiry	398	333	266	214	196
	Total	8,185	7,742	7,644	7,302	7,194

Note: ¹These figures do not include offenders who change from day parole to full parole. They are shown below.

	1997–98	1998–99	1999–00	2000–01	2001–02
Day parole to full parole	1,034	1,130	1,147	932	837

Source: Correctional Service Canada

Chapter

5

**Post-Secondary Recruitment Program of
the Federal Public Service**

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Post-Secondary Recruitment Program of the Federal Public Service

Main Points

5.1 The Public Service Commission has redesigned the Post-Secondary Recruitment program to better meet the needs of both students and government departments and has improved the way it markets the program to universities. However, we found that departments use the program relatively infrequently to staff positions in their regional offices.

5.2 The Public Service Commission has substantially implemented the changes to the program that we recommended in our December 2000 Report. Over the last three years, departments have filled increasing numbers of jobs through the Post-Secondary Recruitment program. However, the increase has been minimal in proportion to the increase in total numbers of people hired into the public service during the same period.

5.3 In our December 2000 Report, Chapter 21, we recommended that the government develop a results-oriented recruitment strategy that would identify post-secondary recruitment targets to address workforce renewal challenges for the years ahead. In our 2002 follow-up work discussed here, we found that some departments and the government as a whole have made limited progress in human resources planning and in establishing recruitment targets. We found that some departments and the government as a whole have not analyzed their recruitment and renewal needs. Nor does the government have a complete picture of the educated and skilled people who are entering the public service through its various recruitment routes.

5.4 Many managers continue to adopt the expediency of short-term hiring, despite the opportunity to recruit through a fast and flexible program. Departments need a balance between hiring to fill immediate vacancies and hiring strategically, with a view to ensuring that the government will have qualified people to deliver its programs and services in the future.

The Public Service Commission, the Treasury Board Secretariat, and the departments we audited have responded. The Public Service Commission, the Treasury Board Secretariat, and the departments we audited agree with the recommendations of our follow-up. Responses throughout the chapter indicate measures being taken or planned to address the recommendations.

Introduction

A federal public service facing renewal needs

5.5 The federal public service will not have the capacity to deliver services if it does not attract people with high-level skills and education. An aging workforce, changes in the nature of work, and competition for resources are challenges that need to be addressed.

5.6 The aging of Canada's population is reflected in the make-up of the federal public service. According to the Treasury Board Secretariat's forecasting models, the proportion of employees aged 55 and over is expected to increase over the next 10 years. Particularly in the upper and middle ranks, many are approaching the time when they will be eligible to retire.

5.7 At the same time, the profile of jobs in the public service is undergoing a transformation to more scientific, technical, and professional positions that require higher levels of education and skills. Replenishing these positions is critical to maintaining a well-functioning public service. Departments are concerned about shortages in the technical and scientific occupations and the management and leadership categories.

5.8 Between 1999 and 2002, speeches from the Throne, the Clerk of the Privy Council's annual reports to the Prime Minister on the public service of Canada, and the Prime Minister's responses to the Clerk have reiterated the importance of attracting and developing the talent needed to serve Canadians in the 21st century. Following the hearings on our December 2000 Report, Chapter 21, and our December 2001 Report, chapters 2 and 3, the Standing Committee on Public Accounts concluded that the government's capacity to attract talented and skilled people needed significant improvement.

The Post-Secondary Recruitment program

5.9 The Post-Secondary Recruitment program is managed by the Public Service Commission. It is the federal government's main structured program for recruiting graduates into a wide variety of entry-level positions in the Administrative and Foreign Service category and the Scientific and Professional category. It is also an excellent source of candidates to renew and rejuvenate the federal workforce and help address the urgent challenge of recruiting for the years ahead.

5.10 At this time, the government has introduced new legislation to modernize the public service of Canada that proposes delegating authority for staffing to departments. We do not yet know the implications for centrally run programs. Exhibit 5.1 shows how graduates may currently enter the federal public service through the Post-Secondary Recruitment program and other avenues.

5.11 The Post-Secondary Recruitment program has a number of positive features. Its selection processes are based on an assessment of whether an applicant's education fits the job. The program has consistently met or

exceeded the federal public service's employment equity targets except for people with disabilities. It is open to applicants from all over Canada, and it offers jobs that are mostly indeterminate (continuing employment without a specified end date) and linked to long-term public service careers.

Exhibit 5.1 How university graduates enter the federal public service

General recruitment

Individual competitions for vacant positions in departments for both short- and long-term employment in all occupational groups.

Competitions managed by the Public Service Commission or by departments with special delegated authority to recruit for highly specialized jobs, such as nurses and doctors at Health Canada and Veteran Affairs Canada and economists at the Department of Finance.

Post-Secondary Recruitment program

Recruitment to specific entry-level positions in departments—managed by the Public Service Commission for the Administrative and Foreign Service and the Scientific and Professional occupational groups; mainly for long-term career appointments.

Recruitment to entry-level positions for development programs—managed by the departments, for example, programs at Statistics Canada for economists/sociologists and mathematical statisticians; Public Works and Government Services Canada for supply officer trainees, and Foreign Affairs and International Trade for the Foreign Service and for management and consular affairs officers.

Recruitment to entry-level positions for corporate development programs—managed by the Public Service Commission: the Management Trainee program, the Accelerated Economist Training program, the Policy Research Development program, and the Human Resources Development program.

Recruitment to entry-level positions for the Financial Officer Recruitment and Development program and the Internal Auditor Recruitment and Development program—managed by the Treasury Board Secretariat.

Student bridging

Students who have worked for the federal government under an official student program and who are hired through the bridging program after graduation.

Managed by departments for all occupational groups; indeterminate or term status employment.

Focus of the follow-up

5.12 Our December 2000 Report (Chapter 21) discussed our audit of how the Public Service Commission was managing the Post-Secondary Recruitment program and to what extent federal departments were using the program. This follow-up audit examined the government's progress in addressing our recommendations from that chapter. As part of the follow-up, we looked at changes to the program and at their impact. We looked at whether more departments are using the program as part of their strategy for human resources renewal and recruiting more new graduates into their workforce, particularly in their regional offices. We also examined whether the Public Service Commission has improved the way it markets the program to universities. Finally, we examined whether the Commission has improved

the way it reports the program's results to Parliament. We did not audit the Commission's quantitative data on the Post-Secondary Recruitment program; however, we assessed the Commission's data compilation methods.

5.13 Our 2000 audit included three departments as examples of users of the Post-Secondary Recruitment program: the Department of Foreign Affairs and International Trade, Fisheries and Oceans Canada, and Statistics Canada. For the follow-up, we added three departments: Public Works and Government Services Canada (PWGSC), Human Resources Development Canada (HRDC), and Veterans Affairs Canada. We chose PWGSC and HRDC because they are very large departments with a sizeable presence in all regions of Canada. We chose Veterans Affairs because its headquarters are outside the National Capital Region and we were interested in the regional recruitment practices of departments in this situation. Our follow-up scope and criteria are set out in About the Follow-up at the end of the chapter.

Observations and Recommendations

The program's new design

Changes in the design of the program represent progress

5.14 Our December 2000 Report made a number of recommendations to improve the Post-Secondary Recruitment program. We recommended that the Public Service Commission create inventories of pre-screened, qualified candidates to speed up the staffing process and encourage managers to hire graduates from the inventory to indeterminate positions. We said that it needed to improve the scheduling and timeliness of the program's recruitment campaigns. And we recommended that the Commission and departments systematically assess recruitment activities under the program and report to Parliament on the program's use.

5.15 Following the hearing on our Report, the Standing Committee on Public Accounts also made a number of recommendations to the Commission. They included enhancing opportunities through the program for recruitment in all regions across Canada, developing a database of pre-screened candidates, and reporting to Parliament on improvements made and the results achieved.

5.16 The Public Service Commission redesigned the program as a result. Earlier in 2000, the Commission and the Treasury Board Secretariat had published a Recruitment Action Plan, which called for the government to improve its human resources planning and to set recruitment targets. It recommended that departments use the Post-Secondary Recruitment program to fill more positions, that the Commission and departments co-ordinate their marketing of the program on university campuses, and that the marketing promote the government as a workplace of choice.

5.17 The differences between the former program and the redesigned program are shown in Exhibit 5.2. The program's application process has been entirely electronic since the fall 2001 recruiting campaign, allowing candidates to apply directly through the Internet.

Exhibit 5.2 Changes in the Post-Secondary Recruitment program

Former program	Redesigned program
Up to 1999, the Post-Secondary Recruitment program was an annual campaign receiving applications only during one month in the fall. In 2000 and 2001 there were winter and fall campaigns.	The program runs throughout the year.
Departments were restricted to advertising during the one-month campaign period.	At any time of the year, departments can advertise positions requiring a recent university degree.
Periods for applying were restricted.	Candidates can apply to the inventory or to departments' current posters at any time.
Applications with missing data risked being rejected.	Applicants can provide missing data at a later date.
Departments had to rely on their own posters and could pick only from graduates who applied during the campaign periods.	Departments can select suitably qualified candidates from the inventory whenever they are ready to staff a position.
Prior to May 2001, departments could post jobs through the Post-Secondary Recruitment program only if there were five or more positions. Subsequently, to encourage use of the program, departments could advertise single positions.	Using the Post-Secondary Recruitment program's inventory allows one-stop shopping for candidates seeking similar positions in a number of departments.
Candidates not selected during a particular campaign would have to re-apply during the next campaign if they were interested in, and met the requirements of, the positions advertised.	Candidates can choose to keep their applications active by reconfirming their application every 60 days.
Screening tests were administered only in association with the annual or biannual campaigns.	Candidates can apply to specific posters and the inventory at any time.
Applicants needed to take whatever tests were required for the job for which they were applying.	Two tests, the Graduate Recruitment Test (GRT) and the Written Communication Proficiency Test (WCPT), are currently used to screen in the stronger candidates and are administered at regular intervals.
Departments made their own selection from applicants to their own posters.	Candidates applying to the inventory can write the GRT and WCPT to complete their applications and be readily available for consideration by departments. Taking these tests is optional but is recommended by the Public Service Commission. Departments may choose to require further testing.
Departments had a heavy workload of candidate screening.	A pre-screened inventory allows a department to request the Public Service Commission to refer the top 10 candidates meeting specific requirements. This reduces departments' workload considerably. Departments must still carry out their own screening of applicants responding to their own posters.
Applications were received during the campaign month, followed by mass testing, followed by referral to departments. Paper referrals were sent to departments.	A faster, electronic referral process takes under 48 hours for career choices requiring no further testing.
Tests were evaluated manually by correctors.	Tests are corrected electronically—95 percent of tests are corrected in two weeks.
Traditional testing methods were used. Applicants sat for exams at a designated centre at an appointed time.	On-line testing of candidates is planned (successfully piloted in Edmonton in fall 2001).

5.18 Two fundamental changes are the transformation from a twice-yearly campaign to a continuous campaign and the creation of the Post-Secondary Recruitment program inventory.

The Public Service Commission has improved the way it markets the program on campuses

5.19 In our 2000 Report, we observed that the Public Service Commission needed to be a better recruiter: it was not promoting a career in the public service sufficiently and aggressively. Nor was it working with departments to co-ordinate their visits to university campuses. In response to our observations, the Commission said it had allocated resources to enhance its promotion and marketing efforts. In our follow-up we expected to find that the Post-Secondary Recruitment program was more visible on campuses and that students had a better perception of the career opportunities the public service has to offer.

5.20 The majority of university career advisors and recruitment co-ordinators we interviewed knew about the redesign of the program and liked the changes. We found that their perception of the public service as an employer had improved. In part, this was a response to changes in the economy, but it was also because the Commission had improved its marketing methods and materials. It continues to publicize the program on campuses by attending career fairs and communicating with program directors and deans. University career advisors and recruitment co-ordinators noted an improvement in the appearance of the Commission's kiosk, which features electronic access to the jobs.gc.ca Web site. The Web site itself is user-friendly. The kiosks are staffed by the Commission's local human resources personnel who are responsible for student recruitment and have the knowledge to respond to students' questions.

5.21 In 2001, the Commission added a Student Ambassador Initiative to its marketing strategy. Student ambassadors are full-time students who are paid a small salary to work 8 to 10 hours weekly throughout the academic year, promoting public service employment to their fellow students. University career advisors and recruitment co-ordinators on campuses where a student ambassador was present reported that the initiative was succeeding in educating students about careers in the federal government.

5.22 In our 2000 audit, we found that students were confused about who was doing the hiring: the Public Service Commission, a department, or a federal agency. The Public Service Commission has tried to solve this problem by linking the program's Web site to other federal government employment sites. The Commission also tries to co-ordinate its campus activities with those of departments. Although the students' understanding has improved, it is still not clear to them who is recruiting. A study by the Treasury Board Secretariat of the marketing and promotional practices that support recruitment recommended that the Government of Canada develop a more consistent corporate image, but no further action has been taken yet.

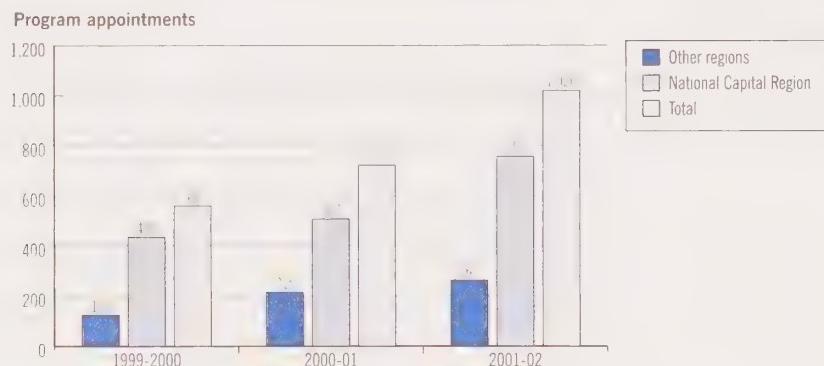
use of the program

The program's contribution to new hiring has stayed about the same

5.23 According to the Public Service Commission's data, the number of appointments made through the Post-Secondary Recruitment program over the last three years shows a significant upward trend. However, the total number of indeterminate employees hired into the federal public service has also increased over the same period, and the proportional contribution of Post-Secondary Recruitment program appointments to new indeterminate hiring has remained roughly the same, despite the program's redesign.

5.24 Exhibit 5.3 shows that the number of appointments made through the program almost doubled between fiscal years 1999–2000 and 2001–02, from 560 to 1,020; the number of appointments outside the National Capital Region also more than doubled, from 125 to 263.

Exhibit 5.3 Post-Secondary Recruitment program appointments in the National Capital Region and other regions



Data include all departmental and corporate programs that recruit through the Post-Secondary Recruitment program

Source: Public Service Commission: Post-Secondary Recruitment program data (not audited)

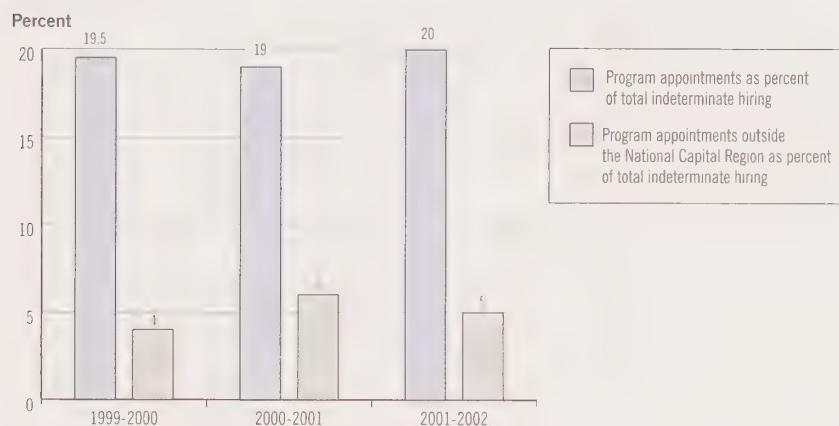
5.25 Over the same period, the total number of federal public service employees grew by some 18,000, an increase of about 12 percent according to the Treasury Board Secretariat's public service employment statistics. The number of new indeterminate employees hired rose from 2,874 in 1999–2000 to 3,856 in 2000–01, and to 5,046 in 2001–02. Exhibit 5.4 shows that appointments through the Post-Secondary Recruitment program remained steady at about 20 percent of total indeterminate hiring over the past three years.

5.26 Appointments through the Post-Secondary Recruitment program in regions outside the National Capital Region also rose in relation to all indeterminate hiring (Exhibit 5.4), from 4 percent in 1999–2000 to a high of 6 percent in 2000–01; and then it dropped to 5 percent in 2001–02.

5.27 In our 2000 Report, we said we were concerned about the low rate of use of the program in the regions, given that 60 percent of the federal public service works outside the National Capital Region. We recommended that

the Public Service Commission use the program to offer opportunities across the country. Our follow-up found that the number of people hired through the program in the regions remains relatively low.

Exhibit 5.4 Appointments through the Post-Secondary Recruitment program as a percentage of new indeterminate hiring



Source: Public Service Commission: Post-Secondary Recruitment program data and annual report hiring statistics (not audited)

Many managers still do not use the program

5.28 The Public Service Commission's appointment statistics and the progress reports of its and the Treasury Board Secretariat's Recruitment Action Plan show that the number of departments using the program increased from 26 in 1999–2000 to 32 in 2000–01, and to 38 in 2001–02. These 38 departments together make up about 97 percent of the total public service population. Thus, what is needed is not so much for more departments to use the program but for those that already do to use it more, especially in the regions.

5.29 During our audit of the program in 2000 and our audit of general recruitment one year later (Auditor General's December 2001 Report, Chapter 3), managers told us they needed better tools to identify candidates for recruitment, including inventories of pre-qualified individuals from which they can quickly identify those who meet their needs. Managers also complained then about the long lead time needed to post positions under the former program, because they could not always predict job vacancies that far ahead. In our opinion, the changes to the program have addressed these problems.

5.30 The human resources personnel we interviewed both at departmental headquarters and in the regions welcomed the changes to the program but reported that many of their line managers gave them a number of reasons for not using the program and the inventory. A primary reason was that the

inventory is new, and some managers are not yet fully aware of it and how it can reduce their recruitment workload and the time it takes to recruit.

5.31 Further, some managers prefer to use the student bridging program because they have already invested in training the students and they know their work. In the bridging program, students who have worked for the federal government to gain job experience during their studies can be hired after graduation either with or without a job competition, depending on the initial selection process.

5.32 However, the Public Service Commission is concerned that managers in many departments and agencies are not using the Post-Secondary Recruitment program enough to meet their renewal needs. A series of letters from the Commission to heads of personnel in departments and a letter dated July 2002 from the President of the Commission to deputy ministers and agency heads encouraged departments and agencies to increase the number of jobs available to graduates through the program, particularly in the regions. The Commission also uses presentations to the human resources community to call for more appointments through the program.

5.33 Three of the six departments covered in our follow-up audit have a sizeable presence in the regions outside their headquarters in the National Capital Region: Fisheries and Oceans Canada, Public Works and Government Services Canada, and Human Resources Development Canada. We found that their regional offices make only limited use of the program, although Fisheries and Oceans Canada's central Post-Secondary Recruitment program campaign in 2001 (for about 15 positions) took the Department's regional needs into account. We also noted a line manager in one of the regional offices of Public Works and Government Services Canada who had undertaken a special recruitment initiative through the program.

5.34 Human resources personnel in these departments' regional offices gave us various reasons why most of their line managers did not use the program. These included the fact that they had a stable workforce or that they did not need university graduates for the jobs that became vacant.

5.35 Veterans Affairs Canada, which has its headquarters in Prince Edward Island, said it has made little use of the program, in part because it has its own delegated authority to hire doctors and nurses for its hospital facilities. However, it does participate in the Post-Secondary Recruitment program's corporate development programs (as described in Exhibit 5.1) from time to time to recruit people in other fields.

5.36 The Commission is also worried about underuse of the Post-Secondary Recruitment program's inventory by regions outside the National Capital Region. As an additional initiative to promote the program's inventory to departments, the Commission recently instructed its Post-Secondary Recruitment program co-ordinators throughout the country to encourage departments to check the inventory for candidates to meet their general recruitment needs. In December 2002, the inventory listed 9,000 graduates or students about to graduate, 6,000 of whom had passed the Graduate

Recruitment Test and the Written Communication Proficiency Test, the two basic tests used to screen in the stronger candidates. Yet the total number of appointments made through the program in the previous year was around 1,000, and most were in the National Capital Region. University career advisors and recruitment co-ordinators caution that the inventory will lose credibility if students hear how few appointments are made from it.

5.37 We expected that the changes to the Post-Secondary Recruitment program, added to the program's impartial selection process, its national character, and its good record in meeting employment equity targets, would have led to more extensive use of the program, especially in the regions. We share the Public Service Commission's concerns about departments not using the redesigned program as much as anticipated.

Short-term hiring practices remain a problem

5.38 In the follow-up we were told that managers use short-term hiring because their departments do not have human resources plans and do not budget for more than a year at a time. Managers are also under pressure to complete their work on time, so they prefer to hire people who already have experience. The hiring managers who took part in the survey we conducted during our audit of general recruitment (December 2001 Report, Chapter 3) made similar comments.

5.39 In that audit chapter we referred to a culture of short-term hiring and said that recruitment practices needed to change. The recruitment system had to be faster and more flexible. Managers needed to change their mindset on recruitment to ensure a better balance between the immediate need to fill vacancies and the strategic needs of their departments. Though the Public Service Commission has redesigned the Post-Secondary Recruitment program since then to make it more nimble, our follow-up work indicated that many managers have not altered their outlook on recruitment.

5.40 A joint study on term employment published by the Public Service Alliance of Canada and the Treasury Board Secretariat in December 2002 showed the problems caused by the use of term hiring for other than legitimate short-term purposes. Examples of legitimate uses are filling temporary vacancies while indeterminate employees are on leave or on assignment, staffing short-term projects, or assisting with heavier than usual workloads. The study confirmed what we had found in 2001: some managers use term hiring because they find it more convenient than following the current rules for indeterminate hiring. The Treasury Board's new policy on term appointments shows the seriousness of the problem and the need for a drastic change in departments' approach to recruitment.

The program works well to recruit for development programs

5.41 Some departments are doing a good job of linking the program to their own development programs. Three of the departments in our follow-up—Statistics Canada, Public Works and Government Services Canada, and Foreign Affairs and International Trade—have used the program to recruit for their formal development programs. For the most part, these departments

have a good knowledge of their workforce and have looked ahead to their future business needs.

5.42 Statistics Canada establishes its human resources requirements through demographic projections and renewal and business planning. As we reported in December 2000, this department is highly regarded for its recruitment practices and continues to maintain its excellent reputation for planning and recruitment. PWGSC also uses demographic analysis to forecast its needs, although its human resources managers would like line managers to improve their planning of workforce renewal. PWGSC has put measures in place to help line managers use the demographic analysis for planning. At PWGSC we also found an example of a regional office using the Post-Secondary Recruitment program to fill the occupational gaps that its own regional human resources plan had identified. Foreign Affairs and International Trade relied mainly on its established procedures and traditions.

5.43 These three departments recognize that they must invest in recruiting and developing graduates to continue providing their core services. They have senior management support for strategic recruitment through the Post-Secondary Recruitment program.

5.44 At HRDC, one branch recently implemented a development program for its core staff and uses the Post-Secondary Recruitment program. In contrast, managers in departments with no longer-term renewal strategy hire mainly to fill each vacancy as it occurs.

5.45 The government also uses the Post-Secondary Recruitment program to recruit university graduates in specific disciplines for five special development programs to meet government-wide needs. These corporate programs set targets annually for the number of trainees they aim to hire. We reported in 2000 that some of the corporate development programs had not met their annual recruitment targets. Since then, the number of graduates recruited through the corporate programs has increased, and all programs have reached or almost reached their targets. The Treasury Board Secretariat's recent *Review of Corporate Student Employment and Entry Level Recruitment and Training Programs* concludes that corporate development programs contribute to the renewal of the public service.

Departments and the government as a whole have not determined their recruitment needs

5.46 Among the six departments involved in our follow-up, the extent of their demographic analysis and human resources planning varied considerably. Statistics Canada is recognized for its use of sophisticated demographic analyses and human resources planning models. It sets recruitment targets for its principal occupational groups. Some departments had a more accurate knowledge of their headquarters' and regional offices' recruitment needs and activities than others. For example, HRDC had done some recent demographic analysis of its workforce, but it had not updated its 1998 recruitment and retention strategy and had little knowledge of recruitment activities in its regional offices. One region had developed its

own strategic human resources plan in 2000 with an update planned in 2003. Fisheries and Oceans Canada has completed a demographic analysis of each occupational group and has identified where there are likely to be shortages. It recognized that it needed to improve its human resources planning capability and is working with the Public Service Commission to develop this capacity.

5.47 In both 2000 and 2001 we reported that capacity for human resources planning and demographic forecasting varied significantly from one department to the next. We said the government needed to develop a strategic direction and specific goals for recruitment to meet the renewal challenge. Without recruitment strategies, departments found it difficult to identify whom they needed to recruit. We were concerned that the government had made recruitment a priority without setting targets for recruiting to critical occupational groups.

5.48 The Recruitment Action Plan published in July 2000 by the Public Service Commission and the Treasury Board Secretariat called for the government to clearly identify public service recruitment needs for the next three to five years. The plan listed recruitment forecasts among its short-term deliverables. In the two years since, the government has set no comprehensive targets, even though several occupational communities are at risk because people with the right qualifications are in short supply. People with these special qualifications are often attracted to work for the private sector rather than the public sector. The Recruitment Action Plan follow-up reports of September 2001 and November 2002 note that certain departments have made some progress and use good practices in their demographic analysis, human resources planning, and recruitment strategies. However, most of them do not report any recruitment targets. The Public Service Commission recently began training departments to improve their human resources forecasting and planning capacities.

5.49 The Treasury Board Secretariat's *Review of Corporate Student Employment and Entry Level Recruitment and Training Programs* found that any government renewal strategy would need to include an assessment of government-wide demand for entry-level recruitment and training programs.

The government has no global picture of new graduates hired

5.50 The Post-Secondary Recruitment program is just one of several ways for graduates to begin a public service career. No government-wide tally exists to show how many graduates are entering the public service through each of the different recruiting avenues, such as student bridging and general recruitment, or what types of jobs these graduates accept when they are hired and under what status of employment.

5.51 The Treasury Board Secretariat's *Review of Corporate Student Employment and Entry Level Recruitment and Training Programs* pointed out that there is no inventory of departmental entry-level recruitment and training programs across departments—no record of who is doing what. The government needs to know how many graduates are entering the public

service and with what knowledge and skills. That knowledge and an understanding of where gaps in its workforce are likely to occur will help the government target development programs at graduates already in the public service. It will also help recruitment programs such as the Post-Secondary Recruitment program to advertise positions specifically and clearly and to make more timely job offers. Once the government has accurate information about the career opportunities it has available to graduates, it can market and promote its corporate image as a workplace of choice.

5.52 Recommendation. The government and departments should adopt a strategic approach to renewal based on demographic analysis, projections, and knowledge of current and anticipated business needs. They should develop specific targets for recruitment, particularly to the occupational groups that anticipate critical shortages.

Human Resources Development Canada's response. HRDC is currently undergoing an extensive renewal initiative to modernize service to Canadians and to undertake a complete policy and program review, as well as a corporate services review. A comprehensive human resources transition strategy will be developed to support the renewal agenda. This strategy will take into account the realignment of existing business lines and current resources as well as any future recruitment needs.

Public Works and Government Services Canada's response. PWGSC concurs with the recommendation. The Department is aware of the importance of building a strong foundation for the future and has undertaken a number of strategic human resources initiatives to support this objective, including a new integrated business planning cycle in 2001-02; the implementation of a comprehensive human resources management framework; and training in human resources planning for managers. As well, each branch head is provided semi-annually with demographic analyses and projections, including key group analyses, and is responsible for developing recruitment plans.

Managers are encouraged to staff positions on an indeterminate basis and to use apprenticeship and professional training programs for new recruits, with the result that PWGSC has a very low proportion of term employees.

Given that 70 percent of PWGSC staff are located in the national Capital area, and given the nature of regional work and the relatively low number of entry level professional positions in the regions, the opportunities for the regions to recruit through the Post-Secondary Recruitment program are limited.

Statistics Canada noted that the chapter recognized its excellent reputation for demographic analysis, projections, and knowledge of its future needs, and therefore offered no further response. The Department of Foreign Affairs and International Trade, Veterans Affairs Canada, and Fisheries and Oceans Canada acknowledged the chapter, with no further comment.

Reporting on the program

5.53 In our last reports on human resources management issues, we criticized the quality of the information provided to Parliament. The Public Service Commission then established a process to improve its reporting. Its Annual Report to Parliament for 2001–02 provides significantly better information than in previous years. It provides more explanation about the modernization of staffing practices in the public service, the health of the staffing system, and some of the human resources challenges facing the federal public service. The report is more candid and open about the problems of the current staffing system.

5.54 However, the report refers to the Post-Secondary Recruitment program mainly as an example of the use of electronic recruitment, and it lists activities without discussing trends or the impact of the changes that have taken place. As an indicator of improvement in the program, for example, it gives only the increase in the number of applications received. It states that the 22,305 applications received during the fall 2001 campaign represent an 80 percent increase over the previous year. But it does not assess the contribution of the Post-Secondary Recruitment program to maintaining and renewing an educated and skilled government workforce while reflecting public service values, such as making sure that the composition of the public service reflects Canada's labour market. Nor does the report mention as a positive feature of the program that it meets or exceeds most of the government's employment equity targets.

5.55 The Commission's annual report does not discuss the challenge of encouraging departments and regions to use the program more. Further, it discusses the Post-Secondary Recruitment program in isolation from government policies and other government initiatives that may influence the level of use of the program. For example, when the Commission delegates authority to departments for external recruitment, they use the program less. In 2001 the Department of Finance received delegated authority for a two-year trial to recruit into three streams of economists. Finance now conducts its own recruitment campaign, although it had been a regular user of the program before.

5.56 Enhancements to the student bridging program make it a viable alternative to the Post-Secondary Recruitment program. Other, more general policies may affect the use of the program in the future—an example is the Treasury Board's new policy of converting term employees to indeterminate status after three years of continuous government employment.

5.57 Recommendation. The Public Service Commission should provide more information on the outcomes of the Post-Secondary Recruitment program and explain the program's effectiveness relative to that of other recruitment initiatives and policies.

Public Service Commission's response. The Commission will seek the co-operation of the employer, departments, and agencies to describe in its annual report the results of its recruitment programs in the context of other policies and programs that also influence recruitment.

Conclusion

5.58 In response to our recommendations of 2000, the recommendations of the Standing Committee on Public Accounts, and the Public Service Commission's and Treasury Board Secretariat's joint Recruitment Action Plan, the Public Service Commission has succeeded in redesigning the Post-Secondary Recruitment program to better meet departments' renewal needs and to make it more attractive to university graduates. Qualified students are applying in large numbers and more are being hired than in previous years. However, it is too early to determine the program's effectiveness in contributing to the overall renewal of the federal public service.

5.59 Although the number of graduates hired through the program has increased, the program's proportional contribution to new hiring from outside the public service has remained the same. In our opinion, the program's effectiveness at hiring graduates as part of the renewal of the federal public service is limited by the lack of human resources planning and support for the program in departments.

5.60 As the government's main structured program for recruiting university graduates, the Post-Secondary Recruitment program should be a key part of public service renewal—although the government has yet to determine what will happen to centrally run programs under the new legislation, which proposes the delegating of staffing authority to departments. Federal departments face simultaneously the prospect of a high rate of retirement, particularly from their upper and middle ranks, and the challenge of recruiting people with higher education and levels of skill.

5.61 Although the level of indeterminate hiring has increased in relation to term hiring over the last two years, managers still use term hiring for expediency despite the opportunity to hire for indeterminate positions from a pre-screened inventory. They still need to change their perspective on recruitment to strike a better balance between the immediate need to fill vacancies and the strategic needs of their departments.

5.62 In co-operation with departments and agencies, the government needs to analyze its global requirements for recruitment and renewal. It also needs an accurate profile of the education and skills of people who are entering the public service through the various means of recruitment. Only then can it use its recruitment programs efficiently and promote more effectively the careers it can offer to university graduates.

5.63 The Public Service Commission has improved the way it reports to Parliament on the results of its recruitment program activities. However, it needs to describe these results in the context of other policies and programs that also influence recruitment.

Public Service Commission's comment. The Public Service Commission accepts the findings, which recognize the progress achieved in program design since the Auditor General's December 2000 Report. The Commission continues to improve the program and has implemented an extensive

marketing strategy to increase the use of the Post-Secondary Recruitment program by departments and agencies. On its Web site the Commission is also adding information on, and links to, departments and agencies that recruit for specific jobs.

Treasury Board Secretariat's comment. We concur with the majority of the findings and recommendations. With regard to the new Term Employment policy, we will be monitoring its implementation and will take steps to ensure that it does not have a negative impact on recruitment through the Post-Secondary Recruitment program. We believe that marketing the program and educating managers about it are the most effective ways to ensure that it is used fully. We will continue to work with departments and agencies and the Public Service Commission to identify human resources capacity shortages and develop strategies to respond to them.

About the Follow-up

Objectives

The objective of the follow-up was to determine whether changes to the Post-Secondary Recruitment program have made it more effective at hiring graduates as part of the renewal of the federal public service.

Scope and approach

We looked at whether the Public Service Commission met its commitment to redesign the program and improve the program's marketing, and whether this had led to the desired results. We assessed whether the changes had affected the use of the development programs that come under the Post-Secondary Recruitment program.

We interviewed Public Service Commission staff and human resources officials of six selected departments to explore reasons why departments are or are not using the Post-Secondary Recruitment program and to seek their views on the redesign.

We looked at the Public Service Commission's marketing of the program on university campuses and conducted interviews with some university staff to gauge the impact of the changes.

Given that the redesign of the program is recent, we also looked at whether plans for further improvements were being developed. Finally, we looked at whether the Public Service Commission has improved the information it reports to Parliament on the program, including the outcomes.

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Chapter

6

**Reform of Classification and Job
Evaluation in the Federal Public Service**

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Reform of Classification and Job Evaluation in the Federal Public Service

Main Points

6.1 The government has been trying since 1991 to reform the classification and job evaluation system in the federal public service in an effort to resolve long-standing problems. In May 2002 it announced that its second attempt at reform, the Universal Classification Standard, could not be implemented. In the work to convert positions from the old classification system to a new compensation structure using the new Standard, a single pay structure for all positions in the public service could not be achieved without causing unmanageable disruption to the federal workforce. The Treasury Board Secretariat could not find a way within the existing salary protection policy to reconcile the funds available for the conversion with a manageable rate of salary protection that management and unions would accept.

6.2 Thus, in April 2001 the Secretariat decided not to implement the Standard government-wide. This planned universal approach has now been abandoned, despite a large investment of time and effort by tens of thousands of employees and an estimated investment of about \$200 million in incremental costs between 1998 and 2001.

6.3 The Secretariat has since embarked on a third attempt to reform classification. The new approach is a modification of the old classification system. Like the old system, it will use separate standards for each occupational group, making it difficult to compare the value of the work of different groups and related differences in pay.

New issues

6.4 The President of the Treasury Board announced in May 2002 that the government would begin developing a new step-by-step approach to classification reform, tailored to specific occupational groups. The Secretariat is committed to using some of the work completed under the Universal Classification Standard project as a basis for developing the new group-specific standards, thereby recouping part of the investment made in developing the Standard. Our follow-up found the Treasury Board Secretariat still at the planning stage of the new approach.

6.5 The Secretariat will have to manage a number of challenges to succeed in this third attempt. We have concerns about the new approach:

- The Secretariat has not defined an overall vision of what classification reform will entail and has not articulated a comprehensive plan and timetable for completing the reform.

- Through the new approach, the Secretariat aims to develop classification standards that meet the specific needs of each occupational group across the public service while also meeting the business needs of departments and agencies. However, the business needs of some 60 entities are varied and diverse.

6.6 Some long-standing and intractable issues will need to be resolved:

- There are no objectives and no formal policy for compensation in the public service to guide the new approach to classification and compensation reform.
- There is still a need to align the current pay structures—mainly the products of separate negotiations with 16 unions over the past 35 years—with new classification structures to be developed that are intended to reflect the value of the work employees are doing today. This alignment is needed to ensure that the reform will succeed this time.
- The Secretariat is still developing a strategy for meeting the pay equity requirements of the *Canadian Human Rights Act*.

6.7 Over the past 10 years, the Secretariat did not exercise sufficient control over the classification of positions in the public service to ensure that positions were classified accurately. Between 1993 and 1999, about 28,000 promotions—almost one third of all promotions—were awarded through the reclassification of positions. The Secretariat does not know how many of these positions may have been overclassified. Since classification is directly linked with compensation, there is a risk that the government is overpaying some of its employees.

6.8 In our interviews, we found that although there had been no formal post mortem, each senior official of the Secretariat we met with had learned lessons based on the scope of his or her responsibilities. A key change made was the reorganization of the Secretariat's Human Resources Branch.

The Treasury Board Secretariat has responded. The Secretariat has accepted two of our recommendations and indicates in its responses the action it intends to take. In its response to our third recommendation, it is not clear whether the Secretariat agrees or disagrees with the recommendation.

Introduction

6.9 The reform of classification and job evaluation in the public service was one of the most important changes to come out of the November 1990 White Paper, *Public Service 2000: The Renewal of the Public Service of Canada*—the initiative that was known as PS 2000. As part of service renewal, the government wanted to simplify employment and personnel management in order to redirect resources toward services to the public.

6.10 A PS 2000 task force was set up in 1990 with a mandate to examine the design and administration of the classification and job evaluation systems, taking into account the values and objectives desired for a renewed public service.

6.11 From 1991 until early 2001 the Treasury Board Secretariat, as the task force recommended, worked to reduce the number of occupational groups and simplify the practice and administration of job evaluation. The task force suggested developing a single job evaluation plan that would reflect the requirements of the *Canadian Human Rights Act*.

Why robust classification and job evaluation systems are needed

6.12 In the federal public service, the classification and job evaluation systems are considered the cornerstone of human resources management. Because collective bargaining is based on occupational groups, there are important links between classification and job evaluation and other aspects of human resources management such as staffing, organizational design, and bargaining unit structure. As of March 2002, the federal public service employed some 168,000 people and had a payroll of about \$9 billion. In an organization of this size, any change to classification and job evaluation can have significant multiple effects on the rest of human resources management. (Our May 1996 Report, Chapter 5, Exhibit 5.4 describes some key links between classification and job evaluation and other aspects of human resources management.)

6.13 What is more important, since job evaluation is primarily a way to establish internal equity in an organization, the evaluation results serve as a foundation for determining basic pay. Other variables such as the external market, collective bargaining, and how much the organization can afford to pay will also affect basic pay. Together, these factors contribute to ensuring that the organization provides equitable pay for all of its employees and that it can attract, retain, and motivate skilled employees.

Why the classification and job evaluation systems needed reform

6.14 In 1990, positions in the federal public service were classified into 72 occupational groups and 106 sub-groups and into a number of levels in each of these groups. This occupational group structure had been created over 35 years ago, mainly as a basis for collective bargaining, and there were close to 80 bargaining units. As a result of this complex occupational group and bargaining structure, the public service had some 840 pay rates and 70,000 rules governing pay and allowances when PS 2000 began.

6.15 In the federal public service, classification and job evaluation are intertwined. Classification assigns positions to the appropriate occupational group. Job evaluation determines the relative value of jobs, based on the content and requirements of each job. The evaluation results are then used to determine which positions in each occupational group should receive the same rates of pay, using a classification standard for each occupational group with a series of factors and a rating guide as well reference positions.

6.16 As the task force pointed out in 1990, both the classification and the job evaluation systems were cumbersome, too complex, very time-consuming, and too costly to operate—to say nothing of their impact on costs in other areas of human resources management. The task force further recognized that the two systems presented many obstacles to the redeployment of resources and, in many cases, changes in technology and work organization had made them obsolete. They were highly susceptible to manipulation, in the view of the task force. It also found that the job evaluation system was not responsive to pay equity concerns.

6.17 A long history of attempts to reform classification. In fall 1993 we audited the “final draft” of a new job evaluation system developed by the Treasury Board Secretariat, the Universal Classification Standard. We audited it before it was fully implemented, to see whether it would achieve the Secretariat’s objectives—one of which was to simplify the occupational group structure by reducing the 72 occupational groups to 23, as the PS 2000 task force had recommended. We also wanted to examine a number of concerns that stakeholders had raised about the design and development of the Standard.

6.18 We reported on that audit in our May 1996 Report, Chapter 5. We concluded that the Standard was a step in the right direction but would have to be improved substantially to be workable. We noted that the Treasury Board Secretariat had already acknowledged the Standard’s shortcomings and had begun to redesign it.

6.19 In 1999, the government simplified the occupational group structure by reducing it from 72 to 29 occupational groups, with a new legal definition of each group. As a result, however, not all occupational groups had a distinct classification standard. New occupational groups that had merged a number of former occupational groups continued to use the old groups’ classification standards and designations (such as CR for the clerical group and PM for the program management group, which are now within the program and administrative services or PA group). Twenty-five groups retained their union affiliations; the four others were exempted from union representation and collective bargaining.

6.20 In 2000 we followed up on the development of the Standard, and in our December 2000 Report, Chapter 22, we concluded that significant issues still had to be addressed:

- Before converting to the new Standard, the Secretariat needed to ensure that departments were applying it appropriately.

- Departments needed to ensure that their work descriptions and position evaluation results were valid and reliable.
- The Secretariat needed to test the Standard further to determine to what extent it was universal and gender-neutral.
- The government needed to ensure that a reasonable and realistic level of financial resources would be available to convert positions to the new Standard.

6.21 A change in direction: An end to the universal approach. In May 2002, the President of the Treasury Board declared that a universal approach to the classification system—applying a single classification standard and a single pay structure to all public service positions—was not workable. She announced that classification reform was moving ahead but in a substantially different direction—from a universal approach to one tailored to each occupational group.

Focus of the follow-up

6.22 The government has identified the importance of and need for classification reform for some time. We have audited it and will continue to give it attention.

6.23 In our new approach to following up on previous audits, we re-audit the most significant areas—those that are systemic and current and that carry higher risk. In some cases, we extend our work to new issues that are related to the original audit. Normally, we would follow up on our previous recommendations, but since the government has significantly changed its approach to classification reform, we focussed on its progress from 2000 to 2002 and the challenges that remain.

6.24 Our follow-up looked at the continuing need for reform, the status of the new approach, lessons learned in the reform efforts to date, and corrective action identified and incorporated into planning the new approach. We also looked at how the Secretariat is ensuring in the meantime that it gives departments and agencies the clear direction and support they need to classify positions accurately under the old classification system.

6.25 Our follow-up scope and criteria are set out in About the Follow-up at the end of the chapter.

Observations and Recommendations

The Standard was not the problem

The Standard is still recognized as a reasonable tool for job evaluation

6.26 By the end of our first follow-up in 2000, the Treasury Board Secretariat had finished designing the Universal Classification Standard, except for confirming the final weighting of the elements and the number and point ranges of levels. In December 2000 we reported that the majority of departments we had consulted considered the Standard a promising tool for job evaluation.

6.27 A key part of developing the Standard was establishing the relative importance of its elements to the objectives and values of the public service. In collaboration with all stakeholders, the Secretariat produced a reasonable ranking of job levels (from novice to expert) that reflected the values of the public service and incorporated the factors required by the *Canadian Human Rights Act* and Equal Wage Guidelines.

6.28 In May 2001, the Canadian Human Rights Commission reported on the gender-neutrality of the Standard. It concluded that while some improvement was needed, the Standard was meeting the mark reasonably well.

6.29 In our current follow-up we found that the Secretariat had made significant progress on our December 2000 recommendation—to ensure that departments were implementing the Universal Classification Standard appropriately. For example, it intervened with departments in many targeted areas in an effort to make position evaluation results more consistent. It audited the quality of work descriptions as part of its quality assurance efforts and found that over 97 percent of the 966 work descriptions sampled were of medium to high quality.

6.30 In consultation with departments, the Secretariat also put in place the Web-based Conversion Monitoring System to follow departments' progress and determine how ready they were to convert their positions to the Standard. In July 2001, the Secretariat concluded that an average of 77 percent of position evaluation results in departments were good enough to meet the requirements for conversion. However, departments still needed more time to reach the 95 percent expected by the Secretariat.

6.31 During our current follow-up, senior officials of the Secretariat still asserted that the Standard could reasonably measure the full range of work in departments and was flexible enough to adapt to the evolving nature of work in the public service. They told us that the Standard is a useful tool. The Secretariat is committed to using some of the work already completed as a basis for developing new, group-specific standards and thereby recouping part of the investment made in developing the Standard.

6.32 Secretariat officials noted a number of other residual benefits. Some organizations took advantage of the application of the Standard to streamline their organizational structures and move to more generic position descriptions, thus reducing administrative burden.

A large investment in classification reform over the last 12 years

6.33 More than 12 years have passed since the Public Service 2000 task force and the White Paper initiated the first attempt to reform classification in the public service. During those years, tens of thousands of employees from some 60 departments and agencies devoted significant amounts of time and energy to writing, evaluating, and revising work descriptions for some 150,000 employees—more than once. Representatives of the 16 unions also participated actively in the many activities generated by the Universal Classification Standard project.

6.34 Since there was no mechanism in place to track the costs of this major project in departments or in the Secretariat, in 2001 the Secretariat asked a third party to design a costing methodology and to estimate the size of the departmental investments in the Standard project between 1998 and 2001. The study was to estimate only incremental costs, defined as “costs that would not have been incurred in the absence of the Universal Classification Standard project”—in other words, only the costs of additional salaries for new positions or of replacements for employees seconded to the project, overtime, infrastructure, training of managers and employees in the use of the new Standard, contracts, and system development directly related to the project. They did not include the ongoing costs of salaries for classification staff or for employees and managers involved in writing work descriptions or participating in evaluation committees.

6.35 The study looked at five large departments, and in 2001 it reported on their incremental cost for the Standard project as a basis for estimating the incremental costs government-wide. The study estimated the total incremental cost of the Universal Classification Standard project at about \$200 million from 1998-99 to 2000-01. The study report noted that while the estimate was not perfect, it was reliable enough to provide global indicators of incremental cost. We could not audit the estimate, but we reviewed the work it was based on and we believe it is a reasonable estimate of incremental costs; there is no good estimate of total costs for the 12 year period. According to the Secretariat, new funding accounted for only \$25 million; other costs were absorbed by reallocations within departmental budgets.

Challenges encountered

The development of a single pay structure could not be achieved

6.36 Developing a universal approach to compensation that would fit a universal approach to classification represented a significant change in direction from the last 35 years.

6.37 The PS 2000 task force assumed that with the implementation of the Standard, a common job evaluation plan would support the concept of “equal pay for work of equal value” and would rely on internal relativity as the underlying principle of compensation in the public service. The focus of the Treasury Board Secretariat’s Universal Classification Standard Division was on internal relativity as a basis for pay.

6.38 To implement the Universal Classification Standard as planned, the Secretariat had to develop a single pay structure that the government could afford and that key stakeholders would accept, particularly senior management and unions.

6.39 In developing such a pay structure, the Secretariat had to work with the following constraints:

- Costs needed to be kept within the available funds.
- The salary protection policy could not be changed (no employee was to suffer a financial loss as a result of the conversion).
- Salary protection rates had to be acceptable.

- The rates of pay in the new pay structure resulting from the conversion had to be negotiated with unions.
- The compensation solution could not increase the government's pay equity liability.

6.40 From 2000 to 2001, the Secretariat worked to develop a single pay structure for all occupational groups (except the executive group) by consolidating the 72 existing pay structures.

6.41 In 2001, based on data from the December 2000 results of applying the Standard, the conversion of all positions to a single pay structure was deemed unfeasible with the \$400 million available to fund the conversion. The new pay structure could be achieved within approved funding only by assuming a salary protection rate of about 50 percent. This would mean that about 50 percent of employees would have seen their classification levels lowered upon conversion to the Standard but not their pay. The classification levels of a significant number of employees would have been raised as well as the maximum pay rates. Furthermore, the difference between some pay levels was found to be not a meaningful enough incentive to take on more responsibilities. According to the Secretariat, the single pay structure would have been counterproductive and would have significantly affected the satisfaction and motivation of public service employees.

6.42 Senior officials told us they were particularly concerned in 2001 about several other difficulties that a single pay structure presented. Given the market forces, there was a strong probability that many exceptions to the single pay structure would have to be made to compete with the outside labour market for certain skill sets that were in high demand. This would quickly move the public service away from a single pay structure. Other concerns were that a single pay structure might compromise the right of unions to bargain; it could lead to a larger union or a critical occupational group setting a pay structure that was not appropriate for others; and it could be seen as a constraint on the employee's freedom of association. In our opinion, these are concerns that existed from the beginning of the Universal Classification Standard project and should have been dealt with while the Standard was being developed.

Collective bargaining, affordability, and market forces have shaped existing pay structures

6.43 In our December 2000 Report we noted that the Treasury Board Secretariat had to work to find an acceptable approach to compensation that took into account pay equity requirements, internal relativity, market forces, and affordability—difficult challenges to reconcile.

6.44 Since 1967, pay rates for unionized occupational groups have been established separately through collective bargaining for each group. Until recently, the process of establishing pay rates focussed on balancing affordability against parity with the outside labour market. Internal equity among all employees in the public service was not given the same emphasis.

6.45 The collective bargaining process for the 72 occupational groups, now in some 24 bargaining units, has produced 72 pay structures over time that each reflected the cumulative trade-offs in bargaining. Furthermore, the bargaining power of some unions, given their size and/or the critical skills they represented, had an impact on settlements. The established patterns of collective bargaining were among the factors that contributed to the difficulty of arriving at a single pay structure.

6.46 Before the development of the Universal Classification Standard, the federal public service did not have a good basis for assessing the internal equity of its occupational groups. Once the Standard was applied, the Secretariat plotted departments' position evaluation results according to the present salaries of the positions on a pay structure that fit the available funding. It found that the majority of positions were outside the desired pay structure, either higher or lower than the pay that was proposed.

Decisions on external and internal relativity affected compensation

6.47 Over the years, several decisions on compensation have had an impact on internal relativity among occupational groups and on parity with the outside labour market. These decisions include the following:

- A freeze on salaries from 1991 to 1997, causing some salaries in the public service to fall behind those of comparable jobs in the private sector.
- The settlement in 1999 by a Canadian Human Rights Tribunal of pay equity complaints for six occupational groups.
- The payment of special allowances through collective bargaining to 13 occupational groups to help attract and retain people with skills that were in high demand on the labour market—for example, computer scientists and engineers. Intended to be temporary, these allowances have in effect become part of the pay structure for these groups, whether or not the competitive demand has since disappeared.
- Compensation adjustments negotiated by each bargaining unit between 1997 and 2002 that led to significant variability in wage increases.

No corporate policy on compensation

6.48 To maintain a balance between affordability and internal and external equity, an organization generally needs a sound corporate policy on compensation for all occupational groups, including executives. A compensation policy is designed to support the organization's achievement of its strategic objectives for human resources management as well as its business objectives.

6.49 The federal government has not had a formally approved compensation policy to guide its compensation decisions, and the impact can be seen in the many salary structures it has to deal with. Although the principles of a compensation policy were discussed over the years by various officials of the Treasury Board Secretariat, there was no formal framework in place to balance competing objectives and to review the impact of collective

bargaining decisions for one group on negotiations for the others. In some cases, compensation issues discussed in collective bargaining were assessed for their potential impact on the government's pay equity liability or internal relativity. However, we saw no evidence of a concerted, structured approach within the Secretariat and with stakeholders during the Standard's development that led to significant changes in its approach to collective bargaining that might have smoothed the path for a single pay structure, allowing for conversion to the Universal Classification Standard.

6.50 Although the Secretariat has done considerable work recently to develop a compensation policy for the public service, no such policy has yet been finalized.

6.51 Recommendation. The Treasury Board Secretariat should complete its development of a coherent corporate compensation policy. The Secretariat should monitor and evaluate the effects of the policy's implementation on compensation.

Treasury Board Secretariat's response. The Human Resources Management Office (HRMO) is currently developing a comprehensive policy, which will assist in shaping the federal government's approach to compensation, including the development of collective bargaining mandates. A discussion paper is expected to be released this spring with the intent of having a policy approved in autumn 2003.

Federal public service compensation should serve, within an all overall human resources policy framework, to attract, retain, motivate, and renew the workforce required to deliver business results to Canadians. There are several factors that influence compensation, including the private sector labour markets, internal relativity among groups, macro-economic policy, social policy, relevant legislation, union leverage, public opinion, economic conditions, and the state of government finances. The policy will provide guidance on how to balance these factors and the risks associated with them. Indicators will be developed to monitor the implementation of the policy as it affects compensation outcomes.

Unrealistic assumptions used in establishing costs

6.52 The conversion of some 150,000 positions to a single pay structure had to be done with the funds that were available. Making solid cost estimates was critical.

6.53 In 1991, the Secretariat committed to achieving cost neutrality in converting public service positions to the Universal Classification Standard. That is, it assumed that in the long run, the costs of salaries for positions converted to the new pay structure would be balanced by the savings—making the exercise cost-neutral.

6.54 In 1997, the Secretariat produced a first estimate of the conversion costs. Since actual evaluation results were not available at the time, it based its estimate on previous experience with classification conversions and other historical data and arrived at an estimate of \$400 million over four years as

the total cost of conversion. The Treasury Board gave it Preliminary Project Approval, even though this was a very rough estimate.

6.55 We note that the \$400 million cost estimate represented 1.5 percent of the payroll. However, our audit experience and the academic literature indicate that conversion costs might range around 3 percent of payroll—and more, when adjustments for pay equity are required.

6.56 By 1999, the Secretariat recognized that given the changing nature of work in the public service, cost neutrality was not achievable; it was dropped as an objective. The Secretariat refined the cost estimate to \$434 million over four years, assuming a salary protection rate of 40 percent.

6.57 In January 2000, the Secretariat reviewed the funding required for the conversion, based on a sample of actual position evaluation results in departments using the Universal Classification Standard. This review too, had to assume a salary protection rate of 40 percent in order to stay within the approved funding limit.

6.58 There was no support among deputy ministers for a salary protection rate of 40 percent. They were concerned about the disruptive impact on workforce morale at a time when competition for staff was starting to grow. Although the existing salary protection policy stipulated that no employees would lose income as a result of the conversion, employees with salary protection tend to feel that their work is undervalued; other employees may consider them overpaid.

6.59 The Secretary of the Treasury Board asked officials to work with a salary protection rate of five percent instead, a rate that the deputy ministers did support. Further cost analyses suggested that the cost of converting 150,000 positions using a salary protection rate of five percent would be about \$1.1 billion over a number of years.

6.60 In January 2001, based on several compensation scenarios using the December 2000 results of position evaluations in departments, the Secretariat found that to convert the 150,000 jobs and stay within the funding limit of \$434 million, it would have to use a salary protection rate of about 50 percent to 60 percent. In February 2001, the Secretariat concluded that a single pay structure did not appear viable. It could not find a way within the current salary protection policy to reconcile available funding with a salary protection rate that was manageable and acceptable to management and unions.

Other compensation approaches explored

6.61 The Secretariat considered two other approaches to compensation. The first would use one classification standard with several pay structures, based on the position evaluation results using the Standard. However, the Secretariat concluded that this option would offer little defence against supporting differences in pay in the collective bargaining process or against pay equity complaints.

6.62 The second approach was essentially the same as the old approach to classification and compensation, that is, a different classification standard and pay structure for each occupational group. The Secretariat believed that this approach would be less costly and less disruptive than either the first approach or a single pay structure. It recognized, however, that this approach to compensation risked increasing the government's pay equity liability. It noted that if the reform were substantial, it would support the reform and the initiative to modernize the management of human resources functions across the public service. If the majority of the public service were left untouched, the ability to support broader human resources reforms would be similarly limited.

6.63 The Secretariat established a consultation and decision-making process to validate the analysis and conclusions of its staff. In February 2001, a committee of assistant deputy ministers was formed to assess the full potential implications of not implementing the Standard as originally envisioned. The committee examined several options, including putting a halt to all classification reform, and reviewed the two options developed by the Secretariat.

6.64 The committee concluded that classification reform was still needed. It developed a proposal for a step-by-step, tailored approach to classification reform, beginning with the program administration (PA) group, to recoup some of the investment in the Standard project. The PA group embraced nine occupational groups with the oldest standards and over 45 percent of public service employees. It is represented in every department and includes positions from the lowest to the highest levels of the classification structure (excluding executive levels). Two of the former groups were involved in the major pay equity complaint against the federal government.

6.65 In April 2001 the committee of assistant deputy ministers presented its recommendations to the Treasury Board Secretariat Advisory Committee (an executive committee of deputy ministers), which accepted the need to continue with classification reform and endorsed the tailored approach.

6.66 Early in 2001, deputy ministers and some assistant deputy ministers were aware that the Universal Classification Standard project was unlikely to proceed as initially planned. However, they agreed to continue improving the quality of work descriptions and position evaluation results while new alternatives were explored and a new approach approved.

6.67 From April 2001 through April 2002, the Secretariat engaged in intense education, consultation, and briefings of senior government officials, recognizing that these areas had not received enough attention during the project. It examined the feasibility of proceeding with the PA group, testing options with the largest departments. It worked on a submission to Treasury Board ministers that outlined options and its proposed new tailored approach.

Little communication for twelve months

No information was provided to stakeholders until May 2002

6.68 From April 2001 to May 2002, the Secretariat made no new public announcements on the status of the Universal Classification Standard project—not on its Web site, in letters, or other announcements to departments. As of April 2001, the Secretariat no longer referred to the Universal Classification Standard project, and talked instead about “classification reform,” with no explanation.

6.69 Secretariat officials told us that unions participated in some off-the-record discussions that explored solutions to implementing the universal approach, including what other options might be appropriate. However, in April 2001 and again in November 2001, the Public Service Alliance of Canada (PSAC) requested an update from the Secretariat on the status of the Universal Classification Standard project. According to PSAC records, in each case the Secretariat responded only that work was continuing.

6.70 Following consultations with executives across the country in summer 2002, the Association of Public Executives (APEX) reported that public service executives showed a “definite hint of disengagement” from major reforms of human resource management and linked it directly to the failure to proceed with the Universal Classification Standard. Executives noted that they had invested considerable time and money and their personal reputations in projects that had not materialized.

6.71 Furthermore, the performance information reported to Parliament on the Universal Classification Standard project did not adequately reflect the evolving state of classification reform. In its reports on plans and priorities for 1998-99, 1999-2000, and 2000-01, the Secretariat said that it planned to implement the Universal Classification Standard (Exhibit 6.1). In its 1998-99 Departmental Performance Report, it said it would implement the Universal Classification Standard as the cornerstone of other reforms. The Secretariat said also that conversion of the public service would be administered on a staggered basis throughout 1999. In its departmental performance report for 1999-2000, it said it was implementing the Universal Classification Standard when in fact it was still testing the Standard’s application, and indicated that conversion would not be completed until 2000-01. However, its departmental performance report for 2000-01 dropped all direct reference to the Universal Classification Standard. Instead, the Secretariat began referring to “classification modernization.” There was no explanation for why the terminology had changed and what it meant, or its implications for human resources management modernization.

6.72 Officials of the Secretariat told us that the announcement of a new approach was delayed for a number of reasons. They wanted to develop an alternative to classification reform, and that would require the approval of Treasury Board ministers before it could be announced. A tense labour relations climate, the events of September 11, 2001, and changes in the Secretariat’s senior management also contributed to the delay.

Exhibit 6.1 The Treasury Board Secretariat's reporting on classification reform

What the Secretariat planned in Report on Plans and Priorities	What the Secretariat reported in Departmental Performance Report
<p>1998–99</p> <p>Implement the Universal Classification Standard (UCS), a modern, universal and gender-neutral job evaluation tool that serves as the critical underpinning of other human resources management reforms in collective bargaining, compensation and staffing.</p>	<p>1998–99</p> <p>The Universal Classification Standard will serve as the cornerstone of human resources management reforms including collective bargaining, compensation and staffing...the government published the new Universal Classification standard occupational group definitions...reducing the number...from 72 to 29, thereby allowing for more effective human resource management and greater employee mobility. Conversion of the Public Service will be administered on a staggered basis throughout 1999 as collective agreements expire.</p>
<p>1999–2000</p> <p>Implement the Universal Classification Standard</p> <p>Use the potential of Universal Classification Standard, post-conversion, to facilitate human resource management reforms in collective bargaining, compensation, staffing and organizational development. Negotiate the new compensation structure for the implementation of Universal Classification Standard.</p>	<p>1999–2000</p> <p>Implementation of the new gender-neutral occupational group structure—the Universal Classification Standard (UCS)—continued during 1999–2000. Following some delays, the conversion is expected to be completed during the 2000–01 fiscal year. Gender neutrality, simplicity and universality in job classification are the goals of the new standard. UCS is also an integral part of a modern human resources framework that will make the public service more flexible in serving Canadians in the 21st century. Further details on the progress of implementation are available on the Secretariat's Web site.</p>
<p>2000–01</p> <p>Begin using the Universal Classification Standard as a key corporate tool to stimulate change</p>	<p>2000–01</p> <p>Work continued on preparing for classification modernization</p>
<p>2001–02</p> <p>Modernization of the classification plan</p>	<p>2001–02</p> <p>The Secretariat...implemented a number of reforms that...addressed challenging issues such as...the improvement of the classification system...The Secretariat has identified viable options for a tailored classification reform program. It will be flexible, gender neutral, and conducive to recruiting and retaining the diverse workforce needed in the Public Service.</p>

Source: Treasury Board Secretariat Reports on Plans and Priorities and Departmental Performance Report

Poor oversight of classification

Old classification standards are obsolete

6.73 One of the Secretariat's responsibilities is to establish adequate classification standards and the controls to ensure that positions are classified according to those standards. We expected that given that responsibility, it would take steps to ensure that positions would be classified adequately throughout the development of the Universal Classification Standard and until the Standard was fully in place.

6.74 Thirteen years after the PS 2000 classification task force made its recommendations, departments are still using the 72 old classification standards. Numerous problems with these standards have been identified over the years:

- Many of the old standards do not include the four factors listed in the *Canadian Human Rights Act* and Equal Wage Guidelines and therefore cannot be used for analysis of equal pay for work of equal value.
- Some are obsolete.
- Some refer to work no longer performed and equipment no longer used in the public service.
- Some exclude important dimensions of work today and do not distinguish meaningfully between degrees of job complexity.
- Some classification standards do not measure unique aspects of work and consequently credit the same job content more than once. For instance, in some standards we find that the larger the budget to be managed or the higher the number of people to be supervised, the higher the value of the position. Since the budget to be managed increases with the number of people supervised, in effect the same aspect of work is credited twice. Furthermore, these classification standards support values no longer relevant to achieving efficient delivery of services and programs.

No mechanisms for monitoring or controlling classification

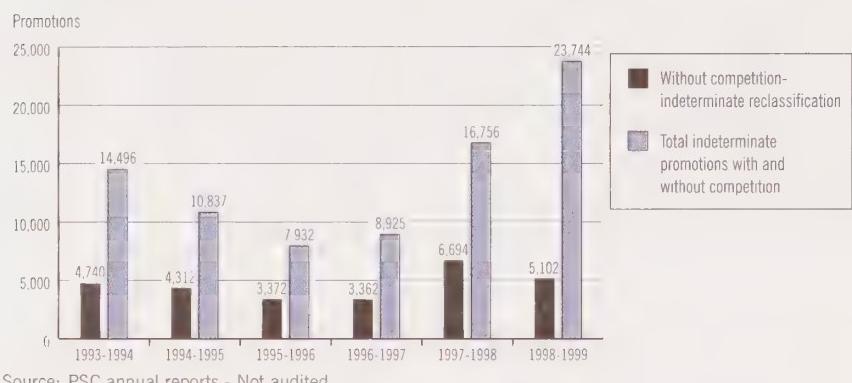
6.75 Departments have been delegated the authority to classify and also reclassify positions. A reclassification is the appointment of an employee, without competition, to a position whose occupational group, subgroup, or level has changed as the result of the position's re-evaluation.

6.76 Leading up to the planned conversion to the Standard, the Treasury Board Secretariat suspended its central monitoring of classification and conducted its last audit of classification in 1991-92. In the years when the Secretariat still controlled classification, about six percent of public service positions were either overclassified or underclassified.

6.77 Reclassifications as a percentage of total promotions have remained relatively constant—around 30 percent—over the past 10 years, according to the Public Service Commission's records. From 1993 to 1999, the Treasury Board Secretariat has had no mechanisms for controlling or monitoring classification. It thus has had no way of knowing whether any of the roughly 28,000 positions whose reclassification resulted in promotions were

misclassified or the magnitude of the cost of any such misclassifications (Exhibit 6.2). In 1990, we reported that the Secretariat had estimated that a 6.4 percent rate of misclassification in 1988-89 resulted in an unwarranted annual net cost of \$5.3 million.

Exhibit 6.2 Reclassifications resulting in promotions, 1993 to 1999



Source: PSC annual reports - Not audited

6.78 In our 2000 follow-up we found that when the Secretariat began to apply the Universal Classification Standard in 1998, some departments and agencies had not reviewed the old classifications of their positions to determine whether they were accurate and up-to-date. We noted that no one had any idea how many positions at that time had been misclassified.

6.79 In fall 2002, the Secretariat conducted a survey to capture an accurate overview of classification practices and capabilities across the public service. Preliminary results showed that nearly 35 percent of positions classified under the old standards over the past few years had been evaluated using the work description elements of the Universal Classification Standard, but without guidance from the Secretariat. The Secretariat recognizes that in the absence of appropriate guidelines, departments may have evaluated the Standard-style work descriptions against old standards in different ways and arrived at different results.

6.80 Recommendation. The Treasury Board Secretariat should ensure that timely audits of classification are conducted and take all the necessary measures to restore and sustain the integrity of the classification of positions in the public service.

Treasury Board Secretariat's response. The Secretariat agrees on the importance of ensuring the integrity of the classification system. In line with the Treasury Board Policy on Active Monitoring, the Secretariat uses the term "active monitoring" rather than "audit." This approach is well suited to the classification system because deputy heads are delegated the authority by the Treasury Board to make classification decisions. Departments are responsible for monitoring how positions are classified within their organizations and the Treasury Board Secretariat is responsible for supporting departments and monitoring the overall situation across all departments.

The Secretariat has reminded deputy heads of their responsibility for systematic monitoring to ensure integrity of classification in the public service. The Secretariat is implementing its active monitoring program in 2003–04 on two levels. At the departmental level, it will assist classification managers to build their own active monitoring program or to align their current program with the active monitoring approach. At the corporate level, it will undertake a comparative study of how a classification standard that is commonly used by departments is being applied. Working with a selected department, the Secretariat will also test its active monitoring methodology and report on the results. New electronic, Web-based tools are under development to assist departments in the consistent application of the existing standards. The Secretariat will continue to advise departments on applying the classification standards and will deal with grievances and dispute resolution. All classification monitoring initiatives will be synchronized with other Secretariat review mechanisms to ease the burden on departments.

The Secretariat is developing tools to work with the old system

6.81 The Secretariat is working to make old classification standards usable; to bring all standards into conformity with the occupational group structure at a minimum; and to maximize the use of the work descriptions developed under the now ended Universal Classification Standard project. Documents from the Secretariat indicate that all these activities are taking longer than originally forecast.

6.82 Over the last year, the Secretariat has started developing a number of measures to provide departments with direction and support for classifying positions using the old classification standards.

6.83 The demise of the Universal Classification Standard project has increased the demand for reviewing classification levels using the old standards, much of which was deferred because the new Standard was soon to be implemented. Hard copies of the old standards are in short supply across the public service. At the time of our follow-up, the Secretariat was scanning its 72 old classification standards into electronic format and had informed departments that it would post them on its Web site early in 2003.

6.84 The Secretariat is developing some monitoring tools for its own use and for use by departments, such as databases and report-generating tools that would allow departments to do peer reviews, update their data, and improve job relativity ratings among departments. The Secretariat is developing a classification monitoring framework that, in line with the Treasury Board policy on active monitoring, allows departments to monitor their management practices and controls. It expects to implement these initiatives in 2002–03 and to be actively monitoring the overall state of classification by 2003–04.

6.85 As noted earlier, during the Universal Classification Standard project the majority of departments rewrote their work descriptions in the style of the Standard. The Secretariat is developing a tool to match the work described in the Standard-style work description format to the requirements of the old

classification standards. The tool is designed to assist departments in collecting information that may be missing from Standard-style work descriptions (such as number of people supervised, or size of budget) but that is needed to evaluate positions by the old standards. It plans to provide guidelines for evaluating the new work descriptions against old standards in a consistent way to ensure relativity throughout the public service.

6.86 In our opinion, besides the other problems we have set out that are inherent in the old standards, they will not value or assess much of the job content captured in the Standard-style work descriptions.

The end of the universal approach was announced

6.87 On 8 May 2002, the President of the Treasury Board announced that while classification reform was still a priority, a universal approach to classification was not workable in the current environment. The government would begin a new program of step-by-step, targeted, and tailored reforms. Exhibit 6.3 summarizes the key features of this new approach.

6.88 The new approach will begin with occupational groups whose standards require fundamental changes. As of March 2003, the Treasury Board Secretariat had not finalized the identification of those groups or determined which classification standards would require only updates or no change. In the interim, the Secretariat has given priority to the rebuilding of capacity in departments and agencies to classify their positions using the 72 old classification standards.

Exhibit 6.3 A new direction for classification reform

Key aspects of the new approach include the following:

Standards will be tailored to respond to the specific needs of each occupational group.

The government will continue to subscribe to the pay equity principle and awaits a proposal from the Pay Equity Task Force for an improved approach to achieving and maintaining pay equity.

Tailored standards will reduce the need for the large number of standards currently used.

Reforms will be carried out only for occupational groups that require major changes to their standards.

Classification reform will be implemented on a three-year rolling plan.

Classification reform will be carried out in co-operation with departments and unions.

The reform of selected occupational groups will use, where possible, work already done under the Universal Classification Standard project such as the work description format.

The new approach will support the modernization of human resources management, an initiative now under way.

Source: Treasury Board Secretariat http://publiservice.tbs-sct.gc.ca/media/nr-cp/2002/0508_e.asp

Issues yet to be resolved**The new tailored approach faces significant challenges**

6.89 Classification reform is part of the government's initiative to modernize human resources management in the public service. However, it is not clear how classification reform will be aligned with the broader modernization initiative and its reform strategy and objectives. Further, the government has defined no clear vision of the overall results it expects to achieve with its incremental and tailored approach. Nor has it established a timeline for managing its classification reform.

6.90 Classification is an essential component supporting many human resources management policies and systems in the public service. Therefore, it is particularly important to ensure that any reform of classification be based on a solid foundation. During our audit, the Secretariat told us that it was at an early stage of developing a framework for human resources management.

6.91 The Secretariat has made a deliberate decision to correct problems as the reform of classification moves forward. This represents significant risks when the overall end results are not defined. For instance, a new classification standard to meet the specific needs of one group could be implemented without knowing the potential impact on other occupational groups slated for attention later.

6.92 Similarly, the Secretariat intends to meet the specific needs of occupational groups across the public service while still responding to the business needs of departments. The mandate, organizational structure, programs, and services of some 60 departments and agencies are unique; attempting to reconcile the very diverse needs of all these organizations while developing a government-wide classification standard for each occupational group will be a significant challenge.

6.93 One concern for the Secretariat is aligning the new classification structure with a new pay structure for each of the occupational groups selected for reform. In our opinion, since the constraints and conditions that hampered the universal approach still exist, the Secretariat faces the same challenges it encountered in the conversion to the Universal Classification Standard, albeit on a smaller scale. The biggest challenge will be to develop a classification standard for the PA group, a high priority and one of the three groups identified as candidates for the first wave of reform. The Secretariat is still assessing whether the PA group can feasibly be one of the first groups converted to a new standard, and it has indicated that conversion is some years ahead.

6.94 Further, the tailored approach to classification may not address the *Canadian Human Rights Act* requirements. The new approach continues the old system's use of separate standards for each occupational group, which makes it difficult to compare the work of different groups and thereby to justify differences in pay. The new approach risks incurring pay equity complaints and the associated potential liability. The Treasury Board Secretariat has recognized this risk and is developing a pay equity risk management strategy as part of its larger risk management framework in its Human Resources Branch.

6.95 Moreover, the tailored, group-specific classification standards will have to be gender-neutral to comply with the *Canadian Human Rights Act* and *Equal Wage Guidelines*. The Secretariat intends to use the Act's four provisions (skill, effort, responsibility, and working conditions) in order to recoup part of the work completed in the Standard project. It recognizes that modifying any part of the Standard without ensuring that appropriate safeguards are in place for gender neutrality could increase the risk of pay equity complaints.

6.96 Finally, the long-term plan and funding for classification reform are still uncertain. In February 2002 the Secretariat projected the costs over 14 years to reform classification standards. Given that the scope of classification reform has not yet been decided, it is not clear if this projection covers the full costs. Nor is there a clear end date or target for completing the reform. The Treasury Board Secretariat is working on a three-year rolling plan that requires it to return to Treasury Board ministers annually to review the progress and the costs of the reform.

6.97 In our follow-up audit we expected to find that the Secretariat had conducted a comprehensive post mortem to determine the root causes of the reform project's demise over the last 12 years and certainly over the course of the Standard project since 1995. To be meaningful, a post mortem would include all key stakeholders and ideally, after the second failed attempt at reform, would be guided by an independent group.

6.98 In our interviews we found that although there had been no formal post mortem, each senior official of the Secretariat had learned lessons based on the scope of their responsibilities and their interpretation of the reasons for the failure. At the end of our audit, the Secretariat gave us a paper summarizing the views of its officials and indicating how they had based the new approach on the lessons learned.

6.99 A key change was the reorganization of the Secretariat's Human Resources Branch. During the second attempt to reform classification (1995 to 2001), the Treasury Board Secretariat's Universal Classification Standard Division was responsible for delivering the Standard as a job evaluation tool and ensuring that departments used it to get reliable results in position evaluations. While consultations happened on some issues, the divisions with related responsibilities (Classification, Labour Relations and Compensation) largely worked independently. The Secretariat has recognized the need for timely and structured sharing of information that is relevant to different divisions of the Branch and to use it as a basis for decisions. It has clustered compensation, labour relations, classification, and pay equity together for a more integrated approach to these areas. In our opinion, this reorganization should help the Secretariat deal with some of the intractable issues that it must resolve in order for reform to proceed.

6.100 The Secretariat recognizes that classification reform is not in itself a solution to all problems of human resources management. It also recognizes the need to involve senior leaders in analyzing the problems and developing

solutions so the reforms will meet the business needs of departments. The Secretariat has committed to working with the public service unions.

6.101 The Secretariat has said that it intends to strengthen the human resources management capabilities of departments, managers, and unions. It also plans to consult with organizations and experts with similar experience outside the Human Resources Branch and the federal public service.

6.102 However, it is not clear to us how the new approach the Secretariat is taking will address the fundamental problems identified by the PS 2000 Task Force, problems that still exist today: the system is complex, cumbersome, very time-consuming, not responsive to pay equity concerns, and costly to operate. The Secretariat has projected the costs of classification reform to 2014 and has announced a strategy and a three-year rolling plan to be revised yearly. But there are no overall objectives for reform, no global plan, and no specific target dates for achieving results. In our opinion, it is questionable whether a reform initiative staggered over many years can be effective.

6.103 Recommendation. The Treasury Board Secretariat should articulate its objectives and expected outcomes for classification reform and develop a global plan for addressing the root problems inherent in the old classification system.

Treasury Board Secretariat's response. The government's goal is to simplify and modernize job classification by introducing a balanced system that reflects labour market realities, treats men and women equitably, and helps it recruit and retain the people needed to serve Canadians. In May 2002, the Treasury Board announced its decision to implement a multi-year classification. Subsequently, implementation initiatives were identified and linked into a coherent three-pronged strategy:

- development of new, tailored, gender-neutral standards responsive to the specific needs of individual occupational groups, where existing standards are particularly outdated;
- ongoing maintenance of existing standards, where necessary, and guidance on their application; and
- rebuilding of system capability through active monitoring and the development and delivery of an up-to-date curriculum for technical specialists and line managers.

Through the adoption of a three-year rolling plan, updated annually, the Treasury Board Secretariat will focus on priorities agreed with departments and unions. Setting business-based priorities, pacing change to fit the system's capacity to manage reform, and resourcing appropriately are the best means to produce sustainable results.

Work to achieve these aims is well under way. Several departments, public service unions, and functional communities have presented their business case proposals for classification reform. The decision as to which occupational groups will be selected for inclusion in the first formal three-year rolling plan will be announced this spring. During 2003–04 we will also be launching our active monitoring program and the first phase of our updated training curriculum.

Conclusion

6.104 Despite 12 years of effort, the government has not made significant progress in reforming its old and problematic classification system. The Treasury Board Secretariat changed its direction on classification reform in 2001; it realized it could not develop a manageable single pay structure with the available funding. In our view, several factors contributed to the failure of a universal approach: the lack of a formal compensation policy; the pattern of collective bargaining over the last 35 years to determine pay; the lack of co-ordination among classification, compensation, labour relations, and pay equity; and flawed costing assumptions. While the Secretariat has reorganized to better co-ordinate its human resources activities, many of the same factors remain to challenge the new approach.

6.105 The Treasury Board Secretariat finished designing the Universal Classification Standard except for confirming the final weighting of the elements and the number and point ranges of levels. The Secretariat says it will use the work done as a basis for developing new group-specific standards.

6.106 The current state of classification standards, some of them more than 30 years old, is a questionable foundation for a new and coherent compensation plan across the public service. The government's ability to justify the adequacy of classification and therefore of compensation in the public service is vulnerable, after a long period with little central control over classification practices in the public service.

6.107 The extent to which positions in the public service today are misclassified is unknown. However, given the number of positions reclassified in the last decade when the Secretariat was not controlling or monitoring classification actions, we view the state of job classification and compensation with serious concern. The Secretariat will need to rebuild and maintain the credibility of the old system until it moves to something else.

6.108 The new, tailored, incremental approach to classification reform that the Secretariat is planning faces significant challenges. It is not clear how it will address pay equity concerns and support modernization in other parts of human resources management—that are founded on the classification system. The government needs a more comprehensive plan to address these challenges.

Treasury Board Secretariat's comment. The Treasury Board Secretariat agrees on the importance of modernizing classification in the public service. This must be done in a way that helps us attract and retain the talent we need to serve Canadians and that treats men and women equitably.

It is evident that we made a substantial investment of time and energy in pursuit of a “universal” approach to classification that proved unworkable. We regret that this much-anticipated project did not fully achieve the intended result.

Much of the work done to prepare for the planned “universal classification standard” (UCS) has proved to be a worthwhile investment. In the main, existing resources were used by departments to carry out day-to-day classification activities. Many employee work descriptions were significantly updated. The strategic use of generic job descriptions has greatly reduced the work required to manage the personnel system. We have introduced innovative gender-neutral approaches into our classification standards design, work description writing, and job evaluation procedures.

Since the Treasury Board President’s announcement in May 2002 of a group-by-group approach to classification reform, we have made solid progress:

- We have consulted widely with departments, unions, and functional communities on 18 groups proposed for priority attention. In May 2003, the President will confirm our initial priorities for classification reform.
- The 72 current classification standards have been mapped against the UCS-based work descriptions to ensure public-service-wide consistency of interpretation and application. This spring, we will make all job evaluation standards accessible through the Internet.
- Last autumn we surveyed departments on classification capacity and current practices. The results are assisting us to focus curriculum development, training, and the sharing of best practices. In June, we will hold the first interdepartmental symposium of classification professionals to promote the renewal of the community.

We are convinced that our reporting to Parliament was appropriate. We could not announce a change of direction before a decision by Treasury Board ministers. The analysis leading to this decision did take longer than we would have liked, for the reasons stated in paragraph 6.72. In the meantime, however, senior Treasury Board Secretariat officials did appear before the Public Accounts Committee and indicated that we were exploring alternative approaches to classification reform.

In respect of pay equity, the departments of Justice and Labour and the Canadian Human Rights Commission recognize that the current provisions of the *Canadian Human Rights Act* are difficult to interpret and apply. For these reasons, the Bilson Task Force, appointed in June 2001 by the ministers of Justice and Labour to review pay equity legislation, is studying these provisions now.

Because the recommendations of the Task Force could result in changes to the current policy or legislation, we must take this into account in determining how to best balance our responsibilities to respect the provisions of the *Canadian Human Rights Act*, the *Financial Administration Act* and the *Public Service Staff Relations Act*. We have undertaken several initiatives to better manage our pay equity obligations, such as working at enhancing our capacity to monitor the impact of changes in gender predominance on wages.

In summary, we are trying very hard not to repeat the mistakes of the past as we manage a very complex issue.

About the Follow-up

Objectives

The objective of this follow-up was to assess the progress in job classification reform in the federal public service since 1996 and to identify the challenges ahead.

Scope and approach

The reform of job classification in the federal public service started in 1990 in the context of Public Service 2000 (PS 2000). We situated the current follow-up in the context of the principles, objectives, and recommendations submitted by the PS 2000 Task Force, the objectives of the Universal Classification Standard (UCS) project in 1995, and the progress made until December 2000.

The primary focus of our work was on the initiatives undertaken by the Treasury Board Secretariat in the implementation of the Universal Classification Standard between December 2000 and December 2002. We examined the work and rationale leading to decisions on changes to the Universal Classification Standard project. We reviewed relevant documentation and conducted many interviews to gain a clear definition of the new approach to classification reform announced by the Secretariat in May 2002. We reviewed the analyses conducted by the Secretariat during the decision-making process. We also examined the extent to which the Secretariat had taken measures to identify the key factors that would ensure the success of future classification reform. Finally, we looked at how the Secretariat is ensuring in the interim that departments and agencies have clear direction and the necessary support to classify positions adequately under the old classification system. Our follow-up excluded audit work in departments and agencies.

Criteria

The criteria are drawn from best practices in the areas of classification and job evaluation, risk analysis management, and decision-making processes used in previous studies and audits of the Office. We expected that

- decisions on changes to the classification system would be supported by sound analysis, using all relevant and up-to-date information including the position of key stakeholders;
- key critical success factors for future classification reform would have been identified, based on lessons learned; and
- in the interim, departments and agencies would have clear direction and the necessary support to classify positions adequately.

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A Message from
the Auditor General of Canada

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Rating Departmental Performance Reports

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Canada Customs and Revenue Agency—
Managing the Risks of Non-Compliance for Customs

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